

# Taxing High and Paying Low - Essays on German Fiscal Policy between the Wars

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# Abstract

This thesis examines the employment and tax multipliers of German fiscal policy between the World Wars. Chapter 1 offers an introductory overview. Chapter 2 estimates the regional job multipliers of public job creation schemes financed by the German unemployment insurance between 1933 and 1937. The financial outlay associated with one year of employment in these programmes was found to be 706 RM, a figure that is marginally higher than the rate of unemployment benefits but represents approximately half the average annual wage at the time. The limited additional income generated in comparison to unemployment leaves scant evidence of second-round multiplier effects. Expansionary employment effects were largely limited to the scope of the Nazi programmes themselves. The following two chapters present a qualitative analysis of changes to tax law and a quantitative analysis of the macroeconomic effects of tax changes in the German interwar period. For econometric identification, Chapter 3 develops a novel narrative dataset of tax law changes between 1925 and 1939 and isolates exogenous variation in fiscal policy based on their underlying motivations. In this comprehensive historical account, each amendment is contextualised and supplemented with projected revenue changes using archival material. Chapter 4 addresses the estimation of tax multipliers utilising the previously developed data set. The sign and level of the multiplier are contingent upon whether Brüning's austerity policy between 1930 and 1932 is classified as exogenous or endogenous. Assuming endogeneity, the multiplier takes on a value of up to 2.5, indicating non-standard evidence as a tax increase is associated with an expansionary effect. Conversely, if one adheres to the reasoning of the Borchardt debate and assumes exogeneity for these measures, the standard evidence of an inverse relationship is restored, with the multiplier peaking at -1.5. Finally, Chapter 5 draws implications for academic discourse in economics and history.





In loving memory of my dear grandmother,  
Anna Luise Mesenig  
\* 4 July 1922; † 11 May 2013



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# Contents

List of Figures	xiii
List of Tables	xv
Abbreviations	xvii
<b>1 Introduction</b>	<b>1</b>
<b>2 Hitler’s Jobs Multipliers:</b>	
<b>Evidence from interwar public relief works, 1933-1937</b>	<b>7</b>
2.1 Introduction . . . . .	8
2.2 Historical Background . . . . .	12
2.2.1 The public work creation measures . . . . .	12
2.2.2 Institutional Details of RfAA . . . . .	16
2.2.3 Public work creation and RfAA . . . . .	17
2.3 Econometric Methodology and Baseline Specification . . . . .	21
2.4 Data and Summary Statistics . . . . .	25
2.5 Baseline Results . . . . .	31
2.5.1 First Stage . . . . .	31
2.5.2 Baseline Results . . . . .	32
2.6 Robustness Checks . . . . .	35
2.6.1 Alternative Specifications . . . . .	35
2.6.2 Outlier Analysis . . . . .	38
2.7 Implications and Comparisons with Other Studies . . . . .	41
2.7.1 Magnitude of the Job-costs per year . . . . .	41
2.7.2 Job-costs and wages . . . . .	41
2.7.3 Overall Impact of RfAA payments . . . . .	45
2.7.4 RfAA payments and Labour statistics . . . . .	47
2.7.5 Output Multiplier of RfAA payments . . . . .	50
2.7.6 Comparison with Other Studies . . . . .	53
2.8 Conclusion . . . . .	56

<b>3</b>	<b>A Narrative Record for</b>	
	<b>Interwar Tax changes in Germany, 1925-1939</b>	<b>59</b>
3.1	Introduction . . . . .	60
3.2	Implementation of tax policy in Germany . . . . .	62
	3.2.1 Financial Constitution . . . . .	62
	3.2.2 Legislative process . . . . .	65
3.3	Data . . . . .	69
	3.3.1 Adopted tax laws . . . . .	69
	3.3.2 Tax revenue changes . . . . .	71
	3.3.3 Motivations . . . . .	78
3.4	Classification of motivations . . . . .	79
3.5	Narrative Account of Tax Shocks in Germany, 1925-1939 . . . . .	82
	1925/26 Budget . . . . .	106
	1926/27 Budget . . . . .	133
	1927/28 Budget . . . . .	139
	1928/29 Budget . . . . .	147
	1929/30 Budget . . . . .	151
	1930/31 Budget . . . . .	161
	1931/32 Budget . . . . .	185
	1932/33 Budget . . . . .	201
	1933/34 Budget . . . . .	216
	1934/35 Budget . . . . .	229
	1935/36 Budget . . . . .	243
	1936/37 Budget . . . . .	248
	1937/38 Budget . . . . .	255
	1938/39 Budget . . . . .	260
<b>4</b>	<b>The Fiscal Multiplier -</b>	
	<b>Narrative Evidence from Interwar German Tax Changes</b>	<b>269</b>
4.1	Introduction . . . . .	270
4.2	Empirical Strategy and Data . . . . .	276
	4.2.1 Empirical Strategy . . . . .	276
	4.2.2 Data . . . . .	277
	4.2.3 Classification of Motives . . . . .	280
4.3	A Narrative Tax Record of Interwar Germany . . . . .	282
	4.3.1 Narrative Evidence . . . . .	283
	4.3.2 Aggregation of tax shocks . . . . .	300
	4.3.3 A time series of tax shocks . . . . .	302
	4.3.4 Identifying assumptions . . . . .	304
	4.3.5 Predictability of the tax changes . . . . .	305
4.4	The Macroeconomic Effects of Tax Changes . . . . .	308

4.4.1	Baseline Multiplier . . . . .	310
4.4.2	Baseline impulse response functions . . . . .	312
4.4.3	Baseline Multiplier under inclusion of Brüning's austerity . . . . .	313
4.4.4	Baseline IRFs under inclusion of Brüning's austerity . . . . .	315
4.4.5	Response of public finances . . . . .	315
4.4.6	Response of monetary variables . . . . .	316
4.4.7	Response of real variables . . . . .	319
4.4.8	Response of trade . . . . .	319
4.5	Further Results and Robustness . . . . .	321
4.5.1	Outliers and Sensitivity to certain reforms . . . . .	321
4.5.2	Sensitivity to lag choice . . . . .	323
4.5.3	Retroactive changes . . . . .	323
4.5.4	Sensitivity to trends and dummies . . . . .	325
4.5.5	Response to endogenous tax changes . . . . .	325
4.6	Discussion . . . . .	326
4.7	Conclusion . . . . .	328
<b>5</b>	<b>Conclusion</b>	<b>331</b>
<b>A</b>	<b>Appendix to Chapter 2</b>	<b>335</b>
A.1	Data Sources . . . . .	336
A.2	Regional equivalences of administrative divisions . . . . .	338
A.3	Geographical Distribution of RfAA payouts . . . . .	339
A.4	Geographical Distribution of Unemployment . . . . .	341
A.5	Distribution of RfAA funds . . . . .	342
A.6	Employment statistics of IfK and Health insurance . . . . .	344
<b>B</b>	<b>Appendix to Chapter 3</b>	<b>345</b>
B.1	Reich budget . . . . .	346
B.2	Reich budget - Section XVII . . . . .	347
B.3	Government declarations . . . . .	348
B.4	Budgetary debates . . . . .	349
B.5	German Federal Archives . . . . .	350
<b>C</b>	<b>Appendix to Chapter 4</b>	<b>353</b>
C.1	Macro trends 1925-1939 . . . . .	354
C.2	Data Sources . . . . .	357
C.3	The tax multiplier under the inclusion of Brüning's austerity . . . . .	360
C.4	Baseline IRFs . . . . .	364
C.5	IRF of HP-filtered GDP . . . . .	365
C.6	IRFs to production indices . . . . .	366
C.7	Sensitivity to lag choice . . . . .	367

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C.8 Instrument relevance . . . . .	368
C.9 Controlling for fiscal policy . . . . .	369
C.10 Controlling for monetary policy . . . . .	370
C.11 IRF to endogenous tax shocks . . . . .	371
C.12 Partial association of endogenous series . . . . .	372
C.13 Sensitivity to particular tax reforms . . . . .	373
C.14 Excluding retroactive changes . . . . .	374
C.15 Sensitivity to trends and dummies . . . . .	375
C.16 Implementation relative to Announcement . . . . .	377
C.17 Narrative Account of Tax Shocks in Germany, 1925-1939 . . . . .	378
C.18 Narrative Tax Shocks . . . . .	402
<b>Bibliography</b>	<b>405</b>
<b>Tax Glossary</b>	<b>437</b>



# List of Figures

2.1	Reich government expenditures on work creation, 1932/33 - 1935/36	13
2.2	Emergency Relief workers, 1933/33 - 1937/38 . . . . .	20
2.3	Change in Employment versus Predicted Change in RfAA payments	25
2.4	Geographical Distribution of Instrument and RfAA payouts . . .	27
2.5	Outlier Analysis . . . . .	40
3.1	Tax revenue by public authority . . . . .	64
3.2	Legislative process in the Weimar Republic . . . . .	67
3.3	Source sample from Reich Budget 1939 . . . . .	72
3.4	Source sample from Reichstag Minutes of Proceedings, Annexes .	75
3.5	Source sample from Bundesarchiv . . . . .	77
3.6	German reparations under the Dawes-Plan . . . . .	116
3.7	The reparation payments for the fiscal years 1924/1932 . . . . .	195
4.1	Narrative tax shock series . . . . .	302
4.2	Narrative tax shock series divided by subclassifications . . . . .	303
4.3	Cumulative multiplier, Baseline . . . . .	311
4.4	Cumulative multiplier, Baseline incl. Brüning's austerity . . . . .	314
4.5	IRFs of fiscal variables . . . . .	317
4.6	IRFs of monetary variables . . . . .	318
4.7	IRFs of real variables . . . . .	320
4.8	IRFs of trade variables . . . . .	322
4.9	Partial Association of GDP and Exogenous Tax shocks . . . . .	324
A.1	Geographical Distribution of total RfAA payouts per Capita . . .	339
A.2	Geographical Distribution of RfAA payouts by categories . . . . .	340
A.3	Geographical Distribution of Unemployment . . . . .	341
C.1	Gross Domestic Product . . . . .	354
C.2	Prices . . . . .	354
C.3	Investment . . . . .	355
C.4	Consumption . . . . .	355

---

C.5 Public Finance . . . . .	356
C.6 Unemployment and Reichsbank Discount Rate . . . . .	356
C.7 Dynamic of weak instrument tests . . . . .	361
C.8 IRFs of taxes and GDP . . . . .	362
C.9 Cumulative multiplier (including Young Plan dummy) . . . . .	363
C.10 IRFs of taxes and GDP . . . . .	364
C.11 Response of HP-filtered GDP . . . . .	365
C.12 IRFs of fiscal variables . . . . .	366
C.13 Cumulative multiplier (lag sensitivity) . . . . .	367
C.14 Dynamic of weak instrument tests . . . . .	368
C.15 Response of GDP to a 1% of GDP change in taxes . . . . .	369
C.16 Cumulative multiplier (monetary controls) . . . . .	370
C.17 IRFs of taxes and GDP in response to endogenous tax shocks . . . . .	371
C.18 Partial Association of GDP and Endogenous Tax shocks . . . . .	372
C.19 Cumulative multiplier (dropping reforms) . . . . .	373
C.20 Cumulative multiplier (excluding retroactive changes) . . . . .	374
C.21 Cumulative multiplier (including linear and quadratic trends) . . . . .	375
C.22 Cumulative multiplier (including dummies) . . . . .	376
C.23 Implementation of tax changes relative to announcement . . . . .	377

# List of Tables

2.1	Summary Statistics, Sample Period: 1933-1937 . . . . .	30
2.2	First Stage Regressions . . . . .	31
2.3	Total Employment Baseline Results . . . . .	34
2.4	IV Regression Results, Alternative specifications, and Data Choices . . . . .	37
2.5	Magnitude of the Job costs . . . . .	42
2.6	Estimated Number of Jobs created by RfAA spending . . . . .	47
2.7	OLS Results for Unemployment . . . . .	50
2.8	Comparison of Job-Multiplier estimates . . . . .	55
3.1	Categories of tax changes . . . . .	81
3.2	Narrative Tax Changes, amendment-by-amendment classification . . . . .	83
3.3	Contribution receipts of the unemployment welfare scheme . . . . .	143
3.4	Young Plan annuities . . . . .	168
3.5	Scheduled and amended reduction of the Industrial Charges . . . . .	174
3.6	Issuance of tax remission bills . . . . .	214
3.7	Return flow of tax remission bills . . . . .	215
4.1	Categories of tax changes . . . . .	283
4.2	Granger causality tests . . . . .	306
A.1	Regional equivalences of administrative devisions . . . . .	338
A.2	Determinants of fund distribution . . . . .	342
A.3	Employment structure and statistics . . . . .	344
B.1	Budgets of the Reich, 1924-1933 . . . . .	346
B.2	Budgets of the tax authorities, 1924-1939 . . . . .	347
B.3	Government declarations of the Reich Chancellor, 1925-1933 . . . . .	348
B.4	Addresses by the Reich Minister of Finance, 1926-1931 . . . . .	349
B.5	Archival sources from Bundesarchiv Berlin, 1925-1939 . . . . .	350
C.1	Macro data sources . . . . .	357
C.2	Granger causality tests . . . . .	360

C.3 Narrative Tax Changes, budget-by-budget classification . . . . .	379
C.4 Narrative Tax Series . . . . .	402

# Abbreviations

<b>ADAP</b>	Akten zur deutschen auswärtigen Politik 1918–1945
<b>AdRk</b>	Akten der Reichskanzlei
<b>ARRA</b>	American Recovery and Reinvestment Act
<b>BA</b>	Bundesarchiv
<b>Bd.</b>	Band
<b>BFH</b>	Bundesfinanzhof
<b>BIS</b>	Bank for International Settlements
<b>BSB</b>	Bayerische Staatsbibliothek München
<b>BVP</b>	Bayerische Volkspartei
<b>CPI</b>	Consumer Price Index
<b>DDP</b>	Deutsche Demokratische Partei
<b>DFG</b>	Deutsche Forschungsgemeinschaft
<b>DNVP</b>	Deutschnationale Volkspartei
<b>Drucks.</b>	Drucksache
<b>DSGE</b>	dynamic stochastic general equilibrium
<b>DVP</b>	Deutsche Volkspartei
<b>FRUS</b>	Papers Relating to the Foreign Relations of the United States
<b>GDP</b>	Gross Domestic Product
<b>HaFraBa</b>	Verein zur Vorbereitung der Autostraße Hansestädte–Frankfurt–Basel
<b>IfK</b>	Institut für Konjunkturforschung
<b>IPI</b>	Industrial Production Index
<b>IRF</b>	impulse response function
<b>IV</b>	instrument variable
<b>KPD</b>	Kommunistische Partei Deutschlands
<b>LP</b>	local projection
<b>LP-IV</b>	local projection instrument variable
<b>NatVers</b>	Nationalversammlung
<b>NSDAP</b>	Nationalsozialistische Deutsche Arbeiterpartei
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>Oeffa</b>	Deutsche Gesellschaft für öffentliche Arbeiten AG
<b>PAAA</b>	Politisches Archiv des Auswärtigen Amts

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<b>PMJ</b>	The Persecution and Murder of the European Jews by Nazi Germany, 1933–1945
<b>PP</b>	Priority Programme
<b>PPI</b>	Producer Price Index
<b>RABl.</b>	Reichsarbeitsblatt
<b>RAnz.</b>	Deutscher Reichsanzeiger und Preußischer Staatsanzeiger
<b>RAO</b>	Reichsabgabenordnung
<b>RBC</b>	Real Business Cycle
<b>REM</b>	Reichsminister für Ernährung und Landwirtschaft
<b>RfAA</b>	Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung
<b>RFM</b>	Reichsfinanzministerium
<b>RGBl.</b>	Reichsgesetzblatt
<b>RM</b>	Reichsmark
<b>Rpf.</b>	Reichspfennige
<b>Rpfg.</b>	Reichspfennige
<b>RR</b>	Reichsrat
<b>RStBl.</b>	Reichssteuerblatt
<b>RT</b>	Reichstag
<b>RV</b>	Reichsverfassung
<b>RZBl.</b>	Reichszollblatt
<b>s.a.</b>	seasonally adjusted
<b>SBB</b>	Staatsbibliothek zu Berlin - Preußischer Kulturbesitz
<b>SPD</b>	Sozialdemokratische Partei Deutschlands
<b>SUTVA</b>	stable unit treatment value assumption
<b>SVAR</b>	structural vector autoregression
<b>UI</b>	unemployment insurance
<b>UK</b>	United Kingdom
<b>US</b>	United States of America
<b>VAR</b>	vector autoregression

# Chapter 1

## Introduction

The call for a strong state is always heard in public and academic discourse in times of major crises. After the 2008 financial crisis, it was the banking sector that had to be rescued by government intervention. During the Covid-19 pandemic, it was the fiscal “bazooka” in Germany that was supposed to support households and businesses in the hope of triggering a V-shaped recovery. More recently, the Western world was taken by surprise by Russia’s invasion of Ukraine. The consequences of the threat to external security and energy supplies required decisive government action. Safeguarding the financial system, alleviating economic and social hardship in a health crisis, protecting people or overcoming price spikes all have one thing in common: public spending has been massively increased. As a result, public debt is on the rise and the debate on how to pay for it, especially under the pressure of rising interest burdens, will soon emerge. This dissertation seeks to deepen our understanding of the macroeconomic effects of fiscal policy by looking at a fateful period in German history: the years between the two world wars, 1919-1939. This period is particularly well suited to serve as a laboratory for fiscal policy, as the social hardship of the lost First World War, the ensuing hyperinflation, the changing reparations regimes, the Great Depression, the prolonged adherence to the gold standard and the Nazi armament primacy led to fiscal ingenuity and unconventional policy reforms that we can exploit using econometric methods as quasi-natural experiments.

Among the debates that developed around German fiscal policy between the years 1919 and 1939, two in particular stand out: the controversy over the alternatives to Brüning’s austerity policy and the debate over the nature of the miraculous Nazi economic recovery.

Until 1979, the consensus was that Brüning’s policy of deflation and austerity, pursued with the aim of revising the reparations agreements, was responsible for the economic and political decline of the Weimar Republic (Grotkopp, 1954; Kroll, 1958; Kindleberger, 1973). Borchardt (1979) initiated a revision by arguing that distributional conflicts and excessive wage increases had already made the German economy vulnerable to crises in the late 1920s, and that during the Great Depression the public sector was cut off from the capital market because of the above-mentioned burdens, so that Brüning’s fiscal policy was the result of an exigency. In addition to much historical evidence for the alternatives discussed by contemporaries, Holtfrerich (1982, 1984), in particular, attacks the assumption of wage excesses based on a real wage position and instead cites the increasing difficulty for firms to export due to foreign trade barriers and the high domestic interest rates for the investment weakness of German industry. Ritschl (2002b) takes up the predicament hypothesis and extends it to an international perspective. At the onset of the Great Depression, Germany suffered from the high interest burden of foreign borrowing in the 1920s and the stricter reparations regime of the Young Plan, leading to a balance of payments crisis in 1930. He thus inter-



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prets Brüning's austerity policy as forced by foreign trade considerations. With reparations in place until mid-1932, the German public budget was *de facto* cut off from international capital markets and thus unable to pursue an expansionary fiscal policy.

The second, even more long-standing, debate has been about the nature of the recovery from the Great Depression since the 1930s. One view, informed by Nazi propaganda, sees Hitler's seizure of power and an attributed drastic fiscal expansion in the sense of a "battle for work" as the starting point for a recovery of unprecedented speed and scope. Visible signs in the early stages were public works, motorisation and general construction, until their effects were superseded by a peacetime war economy by 1936 at the latest (among others Overy, 1975, 1994, 1996; Cohn, 1992; Abelshausen, 1999). This view is supplemented by Temin's (1989) thesis that a prerequisite for recovery was an immediate change in expectations about future macroeconomic policy. The perception as Nazi recovery was shaken by the dating of the upswing to late summer 1932 (Petzina, 1973; Borchartdt, 1979; James, 1988; Buchheim, 1994, 2008; Ritschl, 2002b; Albers, 2018). In particular, it is argued that the programmes initiated by previous governments benefited the Nazi government and legitimised its rule through rapid successes in the labour market, while wages and income remained comparatively low and thus consumption (Buchheim, 1994; Ritschl, 2002b). In particular, Ritschl (2002a,b, 2013) notes that it was not until rearmament outstripped public work as early as 1934 that the role of fiscal policy in the recovery increased, crowding out private demand. A limited role is attributed to Autobahn construction.

Chapter 2, entitled "Hitler's Jobs Multipliers: Evidence from interwar public relief works, 1933-1937" examines the role of job creation schemes in overcoming mass unemployment in the recovery from the Great Depression. In order to legitimise its rule, National Socialism was also dependent on rapid success in re-employing the impoverished working class in order to project economic competence. The successful halving of the number of unemployed from an average of 5.6 million in 1932 to 2.7 million within two years, the ensuing full employment and the propagandistically exploited "Arbeitsschlacht" with visible projects such as the autobahn still colour the public perception of the Third Reich's economic policy today. This chapter deconstructs this myth.

In the wake of the Great Recession, there was a revived interest in evaluating such stimulus programmes. While time series methods are pushed to their limits due to the endogeneity of Keynesian demand stabilisation, a broad literature has developed that uses regional variation in allocations of such programmes for evaluation (e.g. Chodorow-Reich et al., 2012; Wilson, 2012; Nakamura and Steinsson, 2014; Fishback and Kachanovskaya, 2015). The derived regional employment multiplier indicates the additional employment created relative to the expenditure at the district level. This paper uses a new annual panel dataset of unemployment

insurance (UI) disbursements for emergency work in the districts between 1933 and 1937. A shift-share instrument based on pre-Nazi job-creation allocations is used to account for the potential endogeneity of emergency relief fund allocations. Using this instrument in the framework of Panel Data IV regressions, the results suggest that for each additional 10,000 RM spent, about 14 additional persons could be employed in emergency relief work. Conversely, this means that one additional job costs about 706 RM per year. To put these figures into perspective, it is important to note that the average annual wage was about 1440 RM, while unemployment benefits amounted to 600 RM per year. These results imply that welfare benefits were diverted and made conditional on work, while at most a small additional income effect could be achieved. The paper thus puts figures on the precarious employment relationships in Nazi job creation identified in the historical literature (e.g. Ritschl, 2003b; Humann, 2011, 2012), and thus gives an indication of how official statistics could produce such a substantial increase in employment in such a short time at virtually no cost.

Chapter 3, entitled “A Narrative Record for Interwar Tax changes in Germany, 1925-1939”, traces all legislative tax reforms in Germany between 1925 and 1939. For this purpose, all tax changes, their material changes to taxation, their announcement and implementation dates, the expected impact on revenue and the underlying motivations are recorded from historical sources and placed in their historical context. The historical sources include the Reich official gazette, budget documents, draft laws with explanatory notes and press releases, as well as the minutes of cabinet meetings and plenary sessions of the Reichstag, in particular the government declarations of the Reich Chancellors and the budget speeches of the Reich Finance Ministers. In this way, the newly compiled extensive narrative account contributes both to the history of taxation in the interwar period (examples include Braun, 1988; Högemann, 1993; Voss, 1995; Schauer, 2003; Banken, 2018) and forms the basis for a macroeconomic analysis of the effects of tax changes in Chapter 4. In estimating the effects of tax reforms, the main problem of causal interference is simultaneity. Tax changes affect macroeconomic variables, while these variables, such as GDP, in turn affect taxes.

In the search for exogenous variation in tax legislation, I isolate those tax changes based on their motivation that were not made in response to current or future economic movements. This so-called narrative identification is based on Romer and Romer (2010), while this chapter uses the refined classification scheme of Cloyne (2012) to categorise motivations. According to this scheme, all measures that are aimed at long-term economic growth, have ideological motives, are externally imposed or serve to consolidate an inherited deficit are considered exogenous, while short-term demand management and supply-side measures as well as short-term deficit reduction or expenditure funding are considered endogenous. The resulting dataset comprises about 200 classifiable and quantifiable tax re-

forms, which are aggregated into a quarterly time series of tax shocks in order to assess their macroeconomic effects in the following chapter.

Chapter 4, entitled “The Fiscal Multiplier - Narrative Evidence from Interwar German Tax Changes”, is a study of the effects of tax changes on the German economy between 1925 and 1939. The capacity of fiscal policy to influence the macroeconomy is still controversial today. With the experimental measures ranging from Brüning’s austere emergency decrees to the large-scale economic stimulus programmes of the National Socialists, interwar Germany became a testing ground for fiscal policy that continues to spark debate. While the attention of this literature is mainly drawn to the effects of government spending and budget deficits, the discourse remains parsimonious on the effects of taxes. Narrative evidence from an extensive historical survey of the driving motivations of tax reforms in interwar Germany from Chapter 3 is used to isolate a series of exogenous tax shocks. This series, resulting from a narrative identification in the spirit of Romer and Romer (2010), is used as an instrument in a local projections framework to estimate a cumulative tax multiplier. The cumulative multiplier is the absolute change in GDP in monetary units over a given period relative to the absolute change in tax revenues in monetary units over the same period.

This chapter finds a pivotal role for the classification of Brüning’s austerity between 1930 and 1932. Both the sign and the magnitude of the multiplier vary depending on whether the deflationary and austerity reforms are considered endogenous or exogenous. Under the endogeneity assumption, the multiplier provides non-standard evidence. A tax increase has an expansionary effect with a multiplier of up to 2.5. The results are statistically significant, robust to a number of specifications and the instrument can be assumed to be strong. Predictability tests, which are common in the tax literature, statistically support an endogenous classification. Equally strong is the qualitative evidence from the more than 40 years of debate on the constraints and leeway of Brüning’s policy, which justifies an exogenous classification (Borchardt, 1979; Holtfrerich, 1982). Under this assumption, which parallels the qualitative justification for exogenous variation in the austerity literature, and controlling for stricter payment conditions for the Young Plan reparations, the standard evidence of an inverse relationship between tax shock and GDP response as in Romer and Romer (2010), Cloyne (2013) and Hayo and Uhl (2014) can be retrieved. The multiplier reaches a peak effect of -1.5 two years after a tax increase, but suffers from weak instrument bias and is statistically insignificant. Thus, this chapter shows that the qualitatively and quantitatively different application of the narrative identification strategy in the tax and austerity literature leads to diametrically different results for the multiplier effect of tax changes in the German interwar period.



## Chapter 2

# Hitler's Jobs Multipliers: Evidence from interwar public relief works, 1933-1937

*“It was a joke in Germany that Hitler was planning to give employment in straightening the Crooked Lake, painting the Black Forest white and putting down linoleum in the Polish Corridor.”*

— Joan Robinson (1973, p. 3)

## 2.1 Introduction

The apparent paradox of painting the Black Forest white might characterize Adolf Hitler's propagandistically exploited "Battle for Work" - an in size and scope unprecedented fiscal stimulus package to overcome the Great Depression in Germany. Emergency relief works did the trick in the beginning of the Nazi dictatorship to show visible employment growth while workers within those schemes barely generated more income as if they would have lived on unemployment benefits. The Reichs government expenditures on work creation amounted to a total of 3.4 billion RM not including highways or rearmament efforts. Furthermore there are tax vouchers worth 1.7 billion RM on top. The lower bound of the fiscal stimulus estimates from expenditures amount to annually 2.2 per cent of GDP in 1933 and 1934.<sup>1</sup> To put those figures to a modern perspective, the largest expansionary swing in the 2009 American Recovery and Reinvestment Act (ARRA) was an increase in the deficit of about 2 per cent of GDP in 2009 and 2.25 per cent of GDP in 2010. In context of the 1930s the New Deal policies of Franklin D. Roosevelt expanded deficit by 1.5 per cent of GDP in the fiscal 1936 while responding with contractionary measures in the very next year (Council of Economic Advisers (U.S.), 2010, p. 52). The challenges posed by an accelerating rise in unemployment and a dwindling GDP had been greater in Interwar Germany because unemployment figures tripled between 1929 and 1933 while GDP dropped by 20 per cent. However, the insights of this paper in regard of fiscal multipliers speak to the recent constellation during the Great Recession in Europe. The Great Depression and the Great Recession in Europe share three common features: the economy was in a slack state and short-term interest rates were near the zero lower bound in an fixed exchange rate regime.

Given the potential endogeneity of fiscal stimulus packages the macroeconomic literature focuses on exogenous attribution formulas in order to estimate regional job multiplier (e.g., Chodorow-Reich et al., 2012; Wilson, 2012). Unlike aggregate multipliers those relative multipliers measure the change in local employment induced by an increase of 1 unit of the respective currency of government spending in a state, relative to another. While the current literature focuses on evaluating

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<sup>1</sup>Scaled by the GDP estimates in Ritschl and Spoerer (1997, p. 44).

those stimulus packages as a whole, this paper distinguishes itself from the regional multiplier literature in focusing on emergency relief works as they had been in place in the 1930s in the U.S. as well as in Germany.

In this paper the scope of employment gains through public relief works and associated costs per additional job in the context of the Nazi recovery between 1933/34-37/38 are investigated. To study the job gains to increasing government spending on public relief works I employ panel data on regional labour markets and outlays of the Federal Institute for Employment Exchanges and Unemployment Insurance (RfAA) in the period of 1933-1937 with state and time fixed effects. In exploiting both temporal and cross-sectional variation in public work creation spending this paper combines the cross-section approaches taken to evaluate the job multiplier of the ARRA (Chodorow-Reich et al., 2012; Wilson, 2012) and panel studies on GDP or income multiplier as Nakamura and Steinsson (2014) or Fishback and Kachanovskaya (2015).

My results suggest that per additional 10.000 RM spent 14.17 job-years were created. This implies job-costs of 706 RM per year. The job costs relate well to the annual sum of unemployment benefits in amount of 600 RM which a person out of work would have received. In the first year after the Nazis rose to power 250,000 people were solely employed in RfAA public relief works, roughly 21 per cent of all additional employment created. Relating the number of jobs created under the RfAA public work creation scheme to the actual number of annually employed emergency relief workers suggests very low secondary employment effects. Translating the employment multiplier into an output multiplier and accounting for the very narrow spending measure yields 0.91 additional RM in GDP per 1 RM spent.

The contribution of this paper to the literatures is twofold. The first contribution is to the literature that estimates the effects of government spending on the economy. One strand of the literature follows the narrative approach to identify exogenous changes in governments spending. This literature relies on the identifying assumption that military spending is rather related to political conflicts than to underlying macroeconomic conditions (Ramey and Shapiro, 1998; Edelberg et al., 1999; Burnside et al., 2004; Hall, 2009; Fisher and Peters, 2010; Ramey, 2011b; Barro and Redlick, 2011; Nakamura and Steinsson, 2014). In par-

ticular Almunia et al. (2014) use a panel of military-buildups in 27 countries in the prelude of WWII to estimate a government spending multiplier in the period 1925-1939. Another strand imposes structural assumptions on the behavior of output and fiscal dynamics in order to identify fiscal multipliers. Structural VAR approaches are taken by Blanchard and Perotti (2002), Mountford and Uhlig (2009) and Ilzetzki et al. (2013). In context of interwar Germany Ritschl (2002b, 2013) applies this approach estimating fiscal multipliers on basis of central government deficits. This paper follows the most recent approach to estimate regional multipliers based on cross-section or panel data. While some paper (Acconcia et al., 2014; Nakamura and Steinsson, 2014; Fishback and Kachanovskaya, 2015) calculate typical spending multiplier a growing literature calculates local job multiplier with a particular focus on the countercyclical measures taken during the Great Recession (Wilson, 2012; Chodorow-Reich et al., 2012; Conley and Dupor, 2013; Dupor and Mehkari, 2016; Dupor and McCrory, 2018).<sup>2</sup> This paper distinguishes itself from the aforementioned literature in the way that it evaluates the employment effect of labour-intensive public work creation in the area of infrastructure investment. In this way it relates to Leduc and Wilson (2013) who find the multiplier of highway investment building up to 8 over six to eight years. The infrastructure investment in building renovations as in Buchheim and Watzinger (2023) on contrary delivers very immediate employment results. The data on employment in this paper has the advantage of distinguishing between overall employment and as a fraction of it emergency relief workers, which makes it possible to observe indirect or secondary employment effects. The results of this paper suggests that labour-intensive countercyclical investments have strong short-term employment effects but very low secondary employment effects in the private sector. The low secondary employment gains draw attention to the wage level paid under those interwar public relief schemes. Wages barely above the level of unemployment benefits prohibit a demand managed recovery since no additional income is generated for the persons employed.

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<sup>2</sup>Ramey (2011a, 2019) summarizes results on narrative identification and structural VARs. An overview of the literature on sub-national multiplier provides Chodorow-Reich (2019). On interwar U.S. studies see Fishback (2017).



This paper also adds to the literature on the nature of the Nazi recovery. The most persistent explanation of the strong and rapid recovery from the Great Depression credits the decisive deficit financed job-creating measures taken by the Hitler administration (Abelshauser, 1999). Cohn (1992) concludes that moving fiscal policy toward expansion helped Germany to recover from the Great Depression. The particular role of motorization is stressed by Overy (1996, 1975). In a RBC model wages, productivity and fiscal policy account well for the recovery (Fisher and Hornstein, 2002). Through the lens of the Keynesian orthodoxy the Nazi swift from Brüning's deflationary policies to an expansionary fiscal and monetary policy gives a blueprint for an optimal response to strong economic fluctuations. This view is not only due to the timing of the turning point of the business cycle in mid-1932 and the measures taken by the latest Weimar administrations disputed (Buchheim, 1994, 2001, 2003, 2008) but also in the general role of expansionary policies. Ritschl (2002a, 2003a,b) finds only small multipliers to central government deficits suggesting a limited role of fiscal policy to a demand-managed recovery. At the same time rearmament expenditures outnumbered civilian work-creation in 1934 already. Autobahn construction and the Four-Year Plan gained momentum in approaching full employment 1936. A limited role of a pump-priming fiscal policy to the recovery is also described by Erbe (1958), Borchardt and Ritschl (1992) and Tilly and Huck (1994). The psychological interpretation of a visible regime change contributing to the swing and the economic recovery had been put forward by Temin (1971, 1989). Either in a reduced uncertainty or in a change in expectations, psychological aspects of the Great Depression seem to play a role in both, the Depression and the Recovery (Cohn, 1992). Weder (2006a,b) formalizes these ideas in a model framework but finds a role for those preference shocks in the turning point 1932. A larger role of monetary policy to the recovery than fiscal policy is attributed by Ritschl (2013). Later interpretations promote, that Germany was merely participating in an autonomous international upswing (James, 1986; Bernanke and James, 1991). This paper bridges between the view that the decisive fiscal measures after Adolf Hitler's seizure to power induced the German recovery from the Great Depression (e.g., Abelshauser (1999)) and time-series evidence of low fiscal multipliers up until 1935 as in Ritschl (2013). While the strand of literature crediting the

Nazi administration to overcome the crisis particularly focuses on labour markets Ritschl (2002a) focuses on national income. My results show that in 1933 RfAA public relief works provided roughly 21 per cent of the additional employment created. This number might be a lower bound since there had been various other sponsoring institutions of public relief works. At least in the case of RfAA public relief works' secondary employment seems to be rather modest which might be due to the reason that the employees did not generate additional income in comparison to receiving transfers. This explanation is in line with Borchardt and Ritschl (1992), Tilly and Huck (1994) and Ritschl (2002b) while not contradicting the employment growth observed from 1933 onwards.

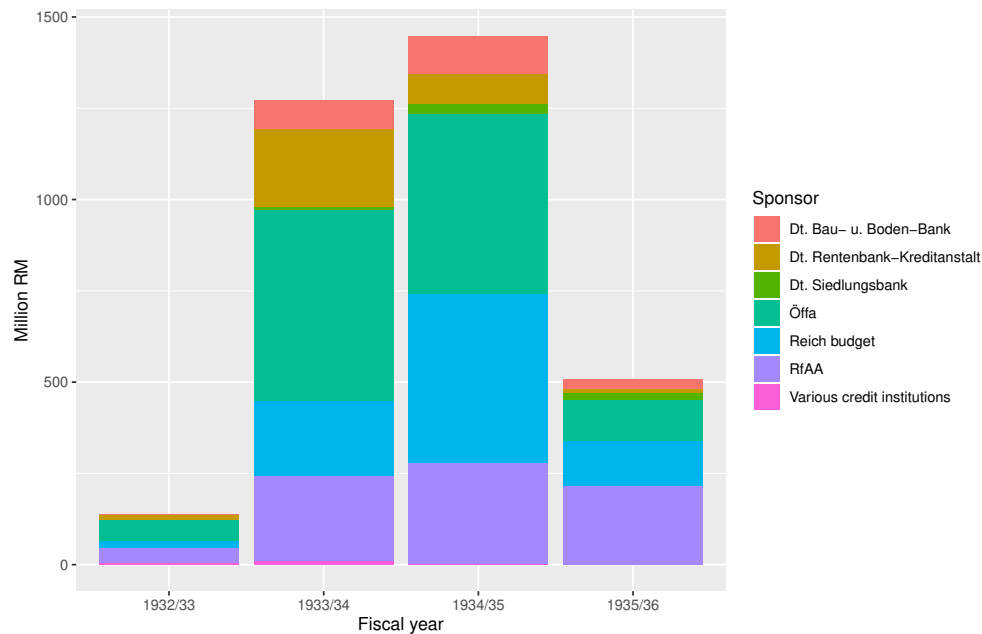
The remainder of the paper is divided as follows. The historical background on Interwar German public work creation schemes and the particular role of RfAA is outlined in Section 2.2. Section 2.3 provides the econometric methodology along with the baseline specification, while Section 2.4 gives an extensive description of the historical data. Baseline results and robustness checks along with some extensions are provided in the Sections 2.5 and 2.6. The obtained results are put to perspective in Section 2.7. Finally, Section 2.8 contains the conclusions I draw.

## 2.2 Historical Background

### 2.2.1 The public work creation measures

The public work creation measures taken in Germany of the Interwar period are unlike the modern ones of the Great Recession not one bill but a series of measures taken over a horizon of several years and financed through different institutions. Figure 2.1 summarizes the outlays through the different channels on the basis of the fiscal year. The fiscal year runs from April to March of the consecutive year. One main take-away message is that public work creation did not steam up until 1933/34. Even though the Papen administration took schemes to overcome the crisis in 1932, the implementation of a large scale government spending program lagged excessive bureaucracy and an ongoing planning stage. Surprisingly, outlays decrease as early as 1935/36. The vast majority of 53 per cent of the total outlays of 3.4 Billion RM had been financed through different credit institutions like *Öffa*,

Figure 2.1: Reich government expenditures on work creation, 1932/33 - 1935/36



Sources: BA R 2/18701, RFM, “Die Arbeitsbeschaffungsmaßnahmen der Reichsregierung 1932 bis 1935,” Denkschrift prepared by Reichsbankrat Düll before transferring from RFM; also in Silverman (1998, p. 257)

*Deutsche Bau- und Bodenbank*, *Deutsche Rentenbank-Kreditanstalt* and *Deutsche Siedlungsbank* along with various smaller ones. Roughly a quarter had been financed through the Reichs budget while 23 per cent are funded by the RfAA, the Federal Institute for Employment Exchanges and Unemployment Insurance. Most importantly, the latter institution published their outlays on work creation schemes and public relief works on a regional basis. This newly collected data exhibits substantial variation in the distributed per capita funds across the states, which is used to estimate a local multiplier of public work outlays on employment.

The countercyclical policies taken to overcome the Great Depression are mostly three decrees in the area of Work Creation Programs. The first decree was issued under the von Papen administration on 4 September 1932. In terms of direct work creation, it was an extension of the Emergency Order issued 14 June 1932 passed under the political responsibility of Heinrich Brüning. It roughly doubled amounts in budget funds devoted to direct measures to 347 million RM and was

associated with accompanying measures taken by the National Railways and the National Post Office with a total of 1.1 billion RM spent until the end of 1934. Indirect measures were taken in the form of tax remission bills amounting to 2.2 billion RM. 1.5 billion were directly linked to the individual tax burden. Taxpayers received bills in the face value of 40 per cent of the turnover tax, the trade tax, and the land tax paid within the period from 1 October 1932 up to 30 September 1933. The same applied to a 100 per cent of the tax on freights and fares fostering work creation by the National Railways. Holders of tax remission bills could either turn them into cash or could use one-fifth of their face value to pay their respective tax obligations in the fiscals 1934/35 to 1938/39. Another 700 million RM had the purpose to reward additional employment through a headage premium. The application of this measure had been proven difficult and was abandoned as of 7 April 1933.<sup>3</sup> The timing of the Papen program coincides with the onset of the economic recovery as data from Ritschl (2002b), Buchheim (2003, 2008) and Albers (2018) suggests.

The second Work Creation Program, the so-called *Sofortprogramm*, was one of the last official acts by Kurt von Schleicher in the Reich's Chancellery. After first decrees dated back to 15 December 1932 and 6 January 1933 finally a consensus on the volume was found on 28 January 1933. Under the condition, that the struggling additional employment premiums of the Papen program will be terminated the Reichsbank provided 500 million RM in funding to the Reichs budget through bills of exchange. The initial budget was increased to 600 million RM on 13 July 1933. The funding reveals a shift in the preferences of the administration from indirect to direct work creation measures, when the responsible Commissioner for Public Work Creation, Günther Gereke stated that "especially in times of crisis like today, I think it is the duty of the public sector to provide the private sector with all possible support, in addition to the necessary tax relief, through public procurement" (AdRk von Schleicher (1932/33), Dok. Nr. 36 vom 23. Dezember 1932).<sup>4</sup> Of the initial 500 million RM only 100 were allocated to

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<sup>3</sup>An extensive contemporary discussion on the tax remission bills of the Papen program can be found in *Wochenbericht des Instituts für Konjunkturforschung*, Vol. 5 No. 24.

<sup>4</sup>Original quote: "Gerade in Krisenzeiten wie den heutigen, ist es meines Erachtens Pflicht der öffentlichen Hand, der Privatwirtschaft auch durch Arbeitsaufträge neben der notwendigen steuerlichen Entlastung jede nur mögliche Unterstützung angedeihen zu lassen."

the Reich for public work creation in the context of armament while 400 million were attributed to decentralised measures undertaken by local authorities. Those states, provinces, districts, municipalities or public enterprises placed orders with private contractors who carried out the work independently (Marcon, 1974, p. 268).

The third Work Creation Program, the first after the National Socialists seizure of power, was announced on 1 June 1933. It is referred to as *Reinhardt program* and in the amount of one billion RM. While the measures taken before devoted funds very narrowly to labour-intensive work creation actions the new funds were about to provide broader areas of businesses with orders like for instance the building construction sector (AdRk Hitler, Band I,2 (1933/34), Dok. Nr. 351 vom 23. Mai 1934). Further appropriations in the value of 70 million RM had been made to spending vouchers, purely representing consumption (Grebler, 1937c). Since the measures taken in June required a certain start-up period, a second decree issued 21 September should bridge the winter. Public subsidies between 20 and 50 per cent of costs for building repairs, renovation and expansion of structures up to the total value of 500 million RM had been granted (AdRk Hitler, Band I,2 (1933/34), Dok. Nr. 351 vom 23. Mai 1934). Alongside these expenditure measures also a series of tax measures had been taken. The motor vehicle tax had been abolished for all new purchases after 1 April 1933 while actual car owners could free themselves from further liabilities through a one-time payment. In the course of the 1st Reinhardt program tax exemptions had been granted for replacement purchases and newly built residential buildings. The repair and expansion of industrial plants became fully deductible from both, corporation and income tax as of 15 July 1933. In the course of the 2nd Reinhardt program a decree issued 21 September 1933 halved the land tax of farms and reduced the turnover tax on agricultural products by two per cent. It was followed by a tax remission on 28 November 1933 for deferred taxes on the condition, that the amount of tax arrears was spent on repairs and new acquisition (Grebler, 1937c; Banken, 2018).

Additionally and propagandistically most exploited had been the announcement of the construction of an interstate highway system.<sup>5</sup> The legal act of 27 June 1933 set the ground for the *Reichsbahn* to form a subsidiary named *Reichsautobahnen* in the purpose of constructing and managing the road network of an intended coverage of 6900 km. The planned total investment volume were estimated to be 1.4 billion RM as of 1933 and were adjusted to 3.5 billion RM in 1935. Those amounts would be government spending shocks in public infrastructure equivalent to 2.5 per cent or for the corrected estimate well above 6 per cent as of 1933 GDP. As early as 1926 a private initiative, the *Verein zur Vorbereitung der Autostraße Hansestädte–Frankfurt–Basel (HaFraBa)*, was founded to develop plans to connect the Hanseatic cities Hamburg and Bremen with Frankfurt am Main and Basel. This association developed ready construction plans for a motorway system including routes, road profiles and soil analysis on which the Hitler administration drew back. On the basis of these foundations construction works started only three months after the inauguration of the *Gesellschaft Reichsautobahnen* on 23 September 1933 on the route section connecting Frankfurt am Main and Darmstadt (Grebler, 1937c; Humann, 2011).

### 2.2.2 Institutional Details of RfAA

A potential active role for the *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung* in the course of public work creation policies was already intended in the founding of the institution in 1927. The legal basis of subsidies and loans in the purpose of pursuing public works were regulated in § 139 AVAVG, RGBI I (1927) (Michaelsen, 1929). The idea was, instead of paying unproductive unemployment benefits to employable nonworkers, to create additional work opportunities. This was referred to as value-creating or productive unemployment welfare. The RfAA was enabled to give loans and subsidies in the amount of which it spared unemployment benefits to public authorities like the Reich, provinces, districts, municipalities and public enterprises which acted as princi-

<sup>5</sup>Voigtländer and Voth (2014) evaluate the effect of the proximity of electoral districts to highway construction sites on election outcomes. The authors find a positive impact on voter approval of the Nazi regime within a 100 km radius of roadworks for the August 1934 referendum on the head of state.

pals. In this way the executing public entities should be saved from excessive indebtedness (Stelzner, 1976). Public works had to meet three criteria: First, they had to create long-term economic benefit. Measures to counteract the rural exodus and leading to a balanced population distribution, soil improvements to increase agricultural productivity and the establishment and maintenance of railways, streets and waterways were considered most suitable for public works. Second, the measures taken locally must be additional to mandatory tasks of the public authorities since otherwise it would not create additional employment but would only consolidate the budget. Third, the implementation of the public work projects must be subject to a cost-effective realization. In regard of this, the principal placed orders with private enterprises which received assigned workers from the labour exchanges. The workers were paid under the collective labour agreements (Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung, 1937b, p. 42). Private enterprises had not been eligible to receive funding from the RfAA directly (§ 139 AVAVG, RGBI I (1927)).

### 2.2.3 Public work creation and RfAA

Expenditures on public work creation measures funded by the RfAA, namely the *Maßnahmen der wertschaffenden Arbeitslosenfürsorge*, the *Grundförderung*, the *Landhilfe* and the *Deutschen Frauenarbeitsdienst* were all financed from the contribution revenue of compulsorily insured persons under the unemployment insurance scheme. The contribution receipts of the respective state employment office districts were not a limiting factor, but rather transfers were made throughout the Reich between districts with high contribution receipts to districts with the corresponding financial needs for job creation measures.

Direct public work creation measures taken in the *Papen-Programm* with funds of the RfAA were realised as emergency relief works and through the Labour Service predominantly focusing on roadworks, waterway constructions and land improvements. Within emergency relief works in the Papen program 70 per cent of the staff must have been former unemployment benefit claimants, up to 20 per cent former public welfare recipients and ten per cent could have been part of the core workforce of the principal or the implementing private enterprise (Herrmann,

1993; Humann, 2011). Up until March 1933 only 28 per cent of the budget assigned had been drawn down so that the implementation of the program fell in the period of the Hitler administration (*5. Bericht der Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*, p. 33).

Initially and contrary to the Papen-program the *Sofortprogramm* did not intend to claim budget of the RfAA. The proposed projects should be carried out as regular works with no particular terms on which unemployed should be hired. As employment criteria should serve social aspects as the duration of unemployment, marital status and the number of children. Unlike in the previous program workers could not be recalled if the employment offices found a job in their respective profession. The implementation of soil improvements within the program had been proven difficult due to the fact that borrower, the principals, had to pay six per cent in interest annually over 20 years. As consequence, the Nazi administration halved the interest burden to three per cent and additionally granted subsidies out of the RfAA *Grundförderung* which were assumed to cover 20 per cent of the total costs. As of 10 April 1934 only 6.3 per cent of the 221 million RM spent on the *Sofortprogramm* came from this funding source.<sup>6</sup> If land improvements were implemented with funds of the RfAA the same criteria for employment applied as under the Papen-program. Unacknowledged public welfare recipients were not eligible to be employed in those projects. The share of the *Sofortprogramm* in the funding of emergency relief works remained low in comparison to the Papen- and the Reinhardt-program (Herrmann, 1993; Humann, 2011).

The involvement of the RfAA in the public work creation within the Reinhardt-program was twofold. The RfAA could fund river regulations as well as infrastructure works to improve and extend the gas, water and power supply with the *Grundförderung*. The working time was limited to 40 hours per week. The program gained momentum as late as April 1934 with a total of 164,000 emergency relief workers while 157 million RM had been spent up until this point in time. 32.4 per cent of which funded through the RfAA *Grundförderung*.<sup>7</sup> Complemen-

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<sup>6</sup>BA R 2/18684; The outlays of 221 million RM as of 10 April 1934 on public work creation within the *Sofortprogramm* in the archival material from the Bundesarchiv are about 100 million RM lower than what should have been already paid out up until the end of 1933 according to the figures presented in Buchheim (2008, p. 391) and Grebler (1937a, p. 425).

<sup>7</sup>BA R 2/18684.

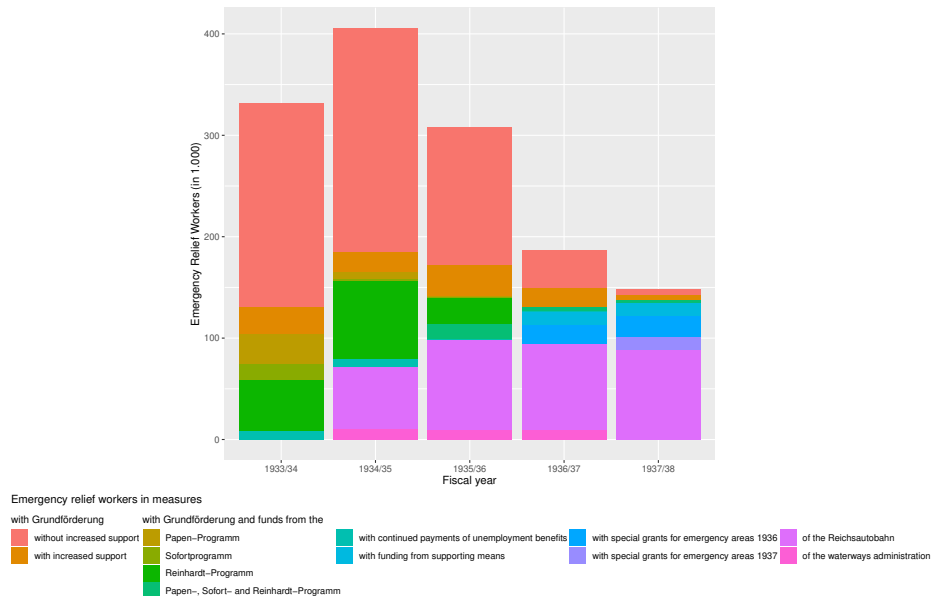


tary to those measures the Reinhardt program enabled the RfAA to fund a special form of public work creation. For civil engineering and earthworks, the principals were supposed to pay the people employed in these projects their former aids, a hot meal per day and a consumption voucher of 25 RM per month. The worker did neither get a contract of employment nor their employment was insurable. Those works appear both in the employment statistic as emergency relief workers as well as in the outlays of the RfAA. This special form of employment was in its quantitative dimension negligible. In its peak May 1934 16,000 people had been employed through this form while in the same moment about half a million emergency relief workers had been employed (Herrmann, 1993; Humann, 2011).

Equally involved was the RfAA as funder of public relief works in the start-up phase of the highway network construction. The *Grundförderung* was granted as subsidy to the motorway construction by the RfAA subject to the condition that 90 per cent of the wage earners must be former unemployed persons placed by the job centres and replaced after half a year by another cohort of former non-workers. The maximal weekly working time was fixed to 40 hours. In order to give stronger support to projects which would have remained undone without subsidies from the RfAA the RfAA stopped the funding through the *Grundförderung* as of 1 July 1934. Except for the maximum duration of employment all regulations on emergency relief workers remained in place (Silverman, 1998, p. 165). Despite the stop of subsidies the funding of the highway construction through the RfAA was continued through loans given out of the budget. The annual report 1937/38 reports a credit worth 265 million RM to the *Gesellschaft Reichsautobahnen*. When the road works stopped in 1941 the RfAA had given 3.4 billion RM in loans to fund the highway construction out of the *Reichsstock für Arbeitseinsatz* which equals 60 per cent of the construction costs (Stelzner, 1976; Schütz and Gruber, 1996; Vahrenkamp, 2001, 2010; Humann, 2011).

Figure 2.2 visualizes the number of emergency relief workers financed with support of the RfAA budgets. While in the fiscal year 1933/34 60 per cent of all emergency relief workers had been funded solely from the RfAA, the remaining 40 per cent had been partially subsidized. The RfAA share in total public work creation outlays had been only well above 18 per cent as depicted in Figure 2.1 in the same fiscal year. The importance of the RfAA contributions to public work

Figure 2.2: Emergency Relief workers, 1933/33 - 1937/38



Source: Compiled from Humann (2011)

creation measures and emergency relief works decline as in the same dimension as the *Reichsautobahn* gains momentum as employer of public relief workers. The measures supported out of the budget for value-creating public work creation of the RfAA decreases from 60.5 per cent in 1933/34 to just over four per cent in 1937/38. A similar pattern can be observed for all emergency relief workers partially or fully funded by the RfAA. From an initial full participation of the RfAA in 1933/34 the share decreases over 80 per cent (1934/35) followed by 68 per cent (1935/36) and 32 per cent (1936/37) in the succeeding fiscals until finally arriving at ten per cent in 1937/38. The total number of emergency relief workers peaks in 1934/35 with well above 400,000 people employed within those employment schemes.

## 2.3 Econometric Methodology and Baseline Specification

The estimation of the job multiplier  $\beta$  in this paper employs panel data methods with the annual change in employment ( $L_{it} - L_{it-1}$ ) scaled by 1933 population in state employment office districts, further referred to as state,  $i$  and year  $t$  as the outcome variable of the regression model of the change in public work creation spending in 1933-Reichsmark per capita in state  $i$  and time  $t$  ( $G_{it} - G_{it-1}$ ).

$$L_{it} - L_{it-1} = \alpha_i + \gamma_t + \beta(G_{it} - G_{it-1}) + X_{it} + \varepsilon_{it} \quad (2.1)$$

The error in state  $i$  in year  $t$  is denoted by  $\varepsilon_{it}$ . To control for confounders that might have affected both the change in employment and the distribution of work creation grants, a set of covariates  $X_{it}$  is included. A vector of the appreciation of the Nazi government incorporated by voting shares is included as well as a vector of the regional share in national unemployment control for influences of these variables on the distribution of funds. A further vector is supposed to control for mismeasurement in the outcome variable due to hidden unemployment. In this regard, I include a vector of the total working population. In the first differences specification the inclusion of state fixed effects denoted by  $\alpha_i$  is equivalent to the inclusion of state-specific time trends in employment and government expenditures. Adding state fixed effects to the model at hand, the identifying variation of the multiplier  $\beta$  for public work creation outlays are deviations from state trend over time. A vector of time fixed effects  $\gamma_t$  controls for nationwide shocks affecting all states in the respective year like changes in distortionary taxation, monetary policy alterations, changes in funding of the Reich budget as well as the introduction and abolishing of public work creation schemes and a starting military buildup. With only time fixed effects the multiplier is identified by variation across time within the same area after controlling for aggregate shocks. Under the full model specification, deviations from the state trend over time are used by the multiplier after controlling for national shocks. In the presence of serial correlation, the multiplier is estimated consistently and unbiased by calculating

the year-to-year first differences in sufficiently large samples. Standard errors can be estimated more efficiently than in the same setting in levels with state fixed effects (Wooldridge, 2008).

Since an increase in government spending in one state potentially affects employment in a neighbouring state through expenditure switching, factor mobility, and income effects the stable unit treatment value assumption (SUTVA) most certainly fails in a regional context. This means that the outcomes in all other states but the treated one is not independent of the treatment in the treated state. If the spillovers between the states are sufficiently small, the job multiplier  $\beta$  still consistently captures the average treatment effect. In turn, for the SUTVA to hold, the spillovers must be infinitesimal relative to the aggregate economy, which requires the states to be infinitesimal small (Chodorow-Reich, 2020, 2019). There is reason to believe that the regional employment office districts are sufficiently small geographic units since the local share in total public relief outlays of the RfAA over the sample varies between 4.8 and 13 per cent.

The geographic distribution of public work creation schemes seems to follow different criteria depending on the scheme and funding institution. The regional budget assignment in the context of the *Sofortprogramm* should not respond to the regional unemployment density (Marcon, 1974, p. 266). On the contrary, the Deutsche Gesellschaft für öffentliche Arbeiten AG (Oeffa) intended to distribute the funds of the 1st Reinhardt program by the districts share in total unemployment as of 30 April 1933, while the Reich subsidies for the reconstruction and repair of dwellings under the same program are allocated due to states population figures (Wolffsohn, 1977). These intended distributions could not be cross-checked by spending data but gives raise to the possibility of simultaneity and endogeneity biases. The first example illustrates that there is serious evidence that the Hitler Administration was willing to give more funds to areas with declining employment. The tendency to follow sociopolitical aspects in the distribution of funds imposes a downward bias on the multiplier coefficient. An instrumental variable strategy is suited to eliminate the biases described.

For identification purposes, this paper uses a shift-share instrument proposed by Bartik (1991) and applied in the context of fiscal spending as a shift in regional or sectoral shares of government outlays. While Perotti (2007) and Nekarda and

Ramey (2011) interact baseline shares of industries in fiscal spending from Input-Output Tables with aggregate spending, Wallis and Benjamin (1981), Nakamura and Steinsson (2014), Fishback and Kachanovskaya (2015) or Dupor and Guerrero (2017) do so for regional shares. The idea is to create an instrument which varies annually both across the time and space dimension while it correlates with the Reich government spending. The regional shares for the different types of overall government spending from an earlier period are multiplied by the yearly federal changes in government spending to develop an indicator of regional spending in each year entirely driven by changes in Reichs spending. For the assumption that the instrument is relevant, there must be a spending category and time period in which the spending share has predictive power for the change in RfAA spending  $G_{it} - G_{it-1}$  after the introduction of state and time fixed effects and conditional on controls. This correlation between the shares in 1931/32 and the additional attributions of RfAA spending seems to be likely since public relief efforts of the Nazis drew back on the plans of the last Weimar administrations. One must note that it requires the spending shares in the baseline period to be exogenous for the estimator to be consistent (Goldsmith-Pinkham et al., 2020, p. 2598). The strict exogeneity of the baseline shares seems to be plausible since the attribution of funds in the final stage of the Weimar Republic rather followed political preferences like the Eastern Aid and the tendency to fight voter transition to extremist parties than unemployment figures.<sup>8</sup> In regard to the exogeneity of the baseline shares already Moldrings (1937, pp. 20-22) claimed that the regional distribution of emergency relief works pre-1933 was not in proportion to unemployment, but rather followed population densities, while Bavaria, however, received increased allocations due to cost-intensive flood protection measures. The finding that the allocations followed populousness holds true for the sample period 1933-1937 as Table A.2 in Appendix A.5 shows.

There is reason to believe that there is no correlation between the RfAA aggregate spending and the error in each specific state after introducing controls as

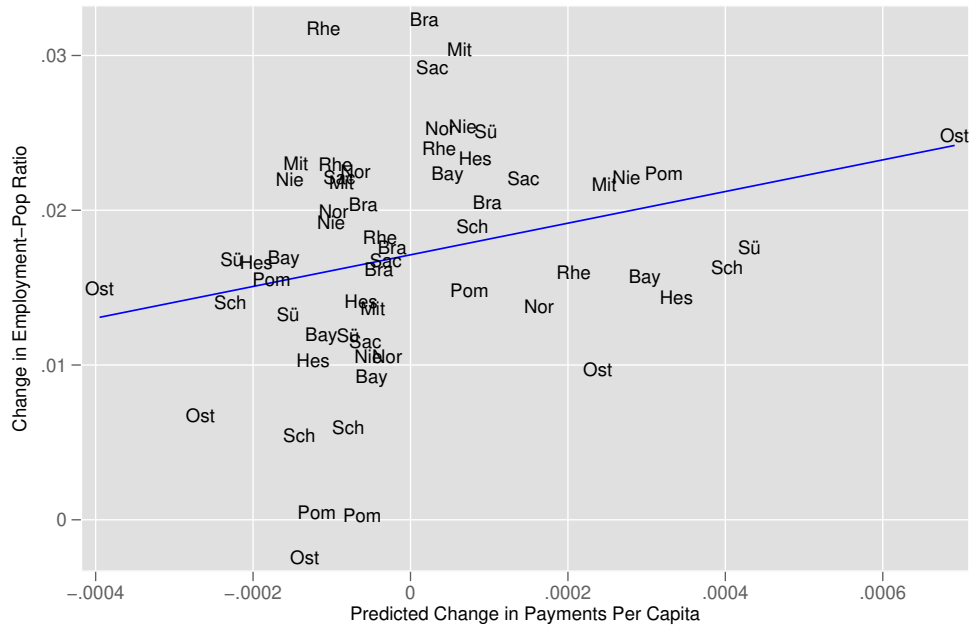
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<sup>8</sup>Case studies on the distribution of funds from work creation programs during the early years of the National Socialist government can be found in Silverman (1993). Most remarkable is the preferential treatment of East Prussia in 1933 due to a personal intervention by Hermann Göring. Further case studies on the city level are on München (Brunner, 1997), Hamburg (Wulff, 1987) and Bremen (Pfliegensdörfer, 1986).

well as two-way fixed effects. Each state was only a minor fraction of the entire economy while RfAA attributions to the states varied in the range of well above 13 per cent to Bavaria and 4.8 per cent to Southwestern Germany of all RfAA outlays on public work creation between 1933 and 1937. The aggregate spending used in the Shift-share instrument excludes spending in the respective state to reduce the correlation between the national total of RfAA spending and the error in state  $i$  at time  $t$  in the final stage. The idea is to combine a Shift-share instrument with a leave-one-out. For East Prussia, for example, the instrument in year  $t$  is calculated as the share in total appropriations in the base multiplied with the sum of the payouts in all states but East Prussia in year  $t$ . For the state shares in the baseline to be correlated with the error in the second stage after introducing state and year fixed effects it would require the deviation from the state-specific trend over time to be correlated with the state share of RfAA payments in the baseline period 1931 and 1932. This seems to be unlikely as Table A.2 in Appendix A.5 shows regressions on the distribution of RfAA outlays. The results indicate that time-invariant characteristics of the states are statistically significant for the distribution of funds in the period 1933-1937 which are controlled for by state fixed effects. Either if the shares in the baseline period are correlated with the error after controlling for state fixed effects, or if the error is correlated with total RfAA spending outside the respective state after controlling for year fixed effects, the instrument is related to the error in state  $i$  in year  $t$ . The aforementioned reasoning gives rise to the believe that there is a lack of correlation.

Figure 2.3 visualizes the specification for employment. It shows the large variation in the year-over-year changes in predicted RfAA payments plotted against the differences in employment per capita across states throughout the fiscals 1933/34 and 1937/38. Predicted payments are based on the first stage regression and normalized to residential population, measured in 1933 RM. The robustness of the results to outliers is evaluated in Section 2.6 where single states are excluded from the panel.

Figure 2.3: Change in Employment versus Predicted Change in RfAA payments



*Notes:* The figure shows the annual changes in per capita predicted RfAA payments in 1933 Reichsmark plotted against the changes in the employment-population ratio for the fiscal years 1933/34 through 1937/38 by state.

## 2.4 Data and Summary Statistics

Outcome Variable. – The outcome variable is derived from monthly published regional employment figures from the health insurance statistics available in *Reichsarbeitsblatt*. For each state for which the statistics of the health insurance has data, monthly series on total employment from April 1933 to March 1938 are collected. Based on these employment estimates, this paper calculates year-over-year average employment figures. The year-over-year series does not follow the calendar year but the fiscal year running from 1 April to 31 March of the subsequent year. Employment is normalized by residential population as of 16 June 1933 as estimated by the *Statistisches Reichsamt* from population census.<sup>9</sup> The

<sup>9</sup>Residential population data aggregated to state employment office districts (*Landesarbeitsamtsbezirke*) are published in Sonderbeilage zu "Wirtschaft und Statistik", 14. Jahrg. 1934, Nr. 20.

same transformation is applied to unemployment data from the same source in order to evaluate the role of distorted labour market statistics. Respective results are discussed in Section 2.7.4.

**Endogenous Variables.** – The main endogenous variable is total RfAA spending on public work creation within a state, scaled by residential population within the state employment office districts. These data are obtained from the annual report of the Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.<sup>10</sup> The total RfAA spending on public work schemes is obtained as the sum of five spending categories: Maßnahmen der wertschaffenden Arbeitslosenfürsorge, Grundförderung, Landhilfe, Deutscher Frauenarbeitsdienst, Freiwilliger Arbeitsdienst.<sup>11</sup> Figure 2.4, Panel (b) depicts the spatial distribution of RfAA payments under the public work creation measures between 1933/34 and 1937/38 normalized by population. In general, northeastern states receive more additional payments than southwestern ones. In particular Rhineland and Southwestern Germany, experience a more moderate growth in RfAA payments. The strongest beneficiaries in the initial phase are East Prussia, Silesia, Pomerania, Lower Saxony, Central Germany, Hesse and Westphalia. Figure A.1 in Appendix A.3 visualizes regional total RfAA payouts per capita over the entire sample, while Figure A.2 differentiates between spending categories.

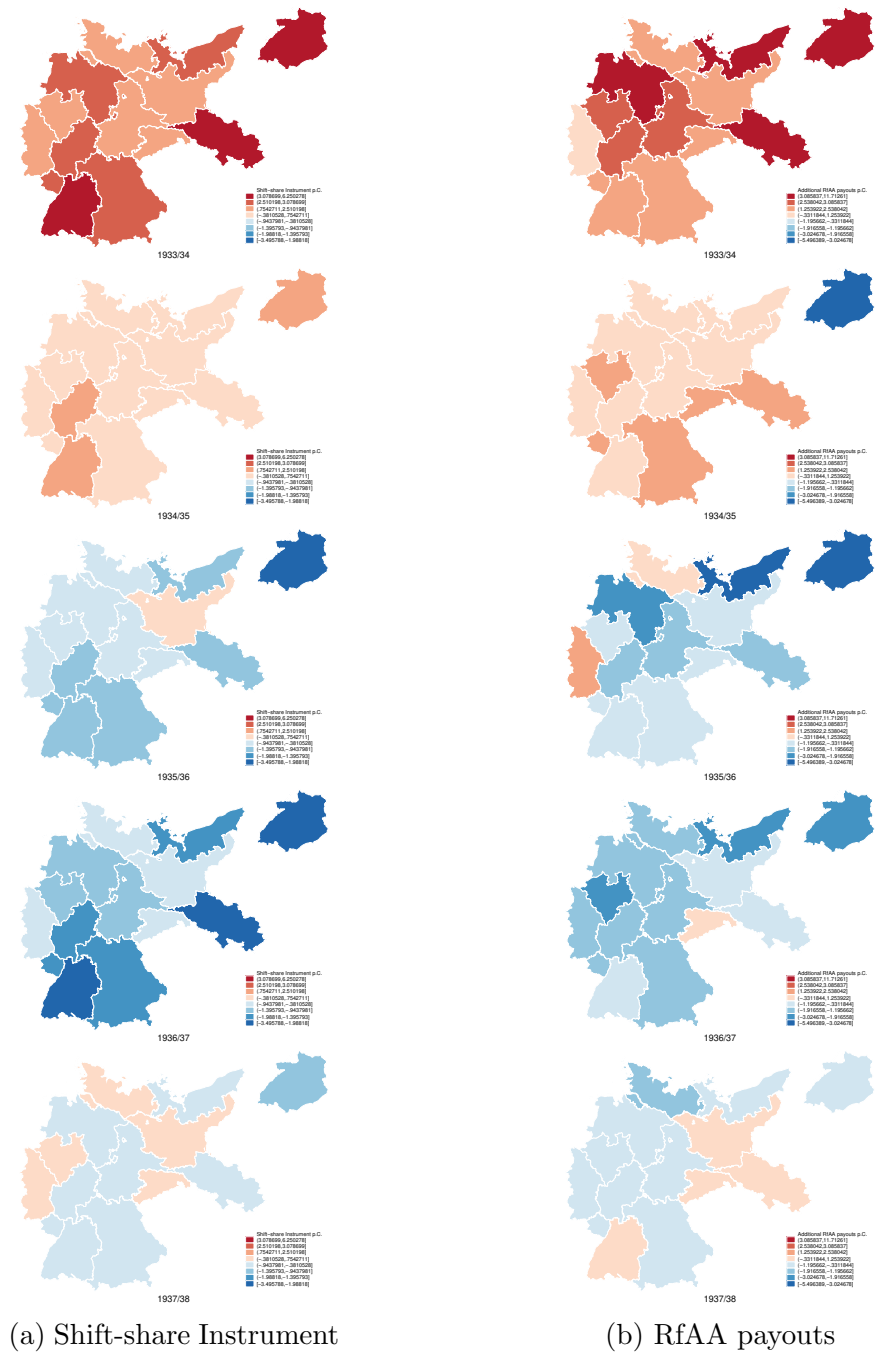
**Instrument.** – The instrument follows the shift share logic. The regional share in RfAA outlays by category in the period 1931 to 1932 is interacted with the national spending across time for the fiscal years 1933 to 1937. National totals in the RfAA spending categories  $S_{jt}$  were calculated as annual sums of the outlays in the states  $i$  in year  $t$  spanning from 1933 to 1937. The RfAA dispersed outlays across states as early as 1931. Using the amounts allocated in the fiscal years 1931 and 1932, the percentage received in state  $i$  as of national totals in category  $j$  is calculated  $p_{ij31-32}$ . The construction of the Shift Share instrument  $Inst_{it}$  for state  $i$  in year  $t$  followed the equation below and is normalized by residential

<sup>10</sup>The annual budget reports of the RfAA are also available on a monthly basis but are insufficient in a cross-section dimension, due to additional appropriations in the last month of the fiscal not broken down to a regional dimension.

<sup>11</sup>Details are available upon request.



Figure 2.4: Geographical Distribution of Instrument and RfAA payouts



Notes: The value of both, the instrument and the payouts are scaled in RM per Capita.

population:

$$Inst_{it} = \sum_{j=1-3} p_{ij31-32} S_{jt}. \quad (2.2)$$

Panel (a) in Figure 2.4 depicts on a map the cross-sectional variation in the Bartik type instrument. The instrument is scaled by population and distinguished into eight bands of spending per capita over the entire sample of five fiscal years. The instrument predicts additional and reduced RfAA payments in the course of public work creation. While, for instance, East Prussia is predicted to receive 6.3 additional RM per inhabitant in the fiscal 1933/34, it receives less in comparison to the respective preceding year in the phasing out of public work creation in the fiscals 1935/36 to 1937/38 and relative to other states.

Control Variables. – The choice of controls follows predominately three concerns: mismeasurement in the outcome variable due to window dressing of the employment statistics, the threat to identification that allotted funds from public work creation schemes differed across states which were on different job growth trends and endogenous allocation formulas of the labour administration. It is not controlled for different wage or price levels in the districts, as these indices are mostly only available in urban areas, so that no sufficiently representative picture emerges for rural districts. To address the latter concern that political preferences determine how cyclically dependent spending within state employment office districts in interaction with the instrument reacts, a control for voters' approval of Nazi candidates is included. One possible threat to the instrument could be that states exhibiting high approval rates are rewarded with a larger share in the public work creation allocations.<sup>12</sup> The control includes the Reichstag elections of 5 March 1933, 12 November 1933, 29 March 1936 as well as the referendum on the head of state on 19 August 1934 published in *Statistik für das Deutsche Reich*.

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<sup>12</sup>Maurer (2018) shows an increase in public employment by 2.5 per cent for each additional percentage point in the voting share. A positive relation between voter approval and the distribution of funds of the *Frauenarbeitsdienst* is shown in Appendix A.5, Table A.2. Columns one and two with total RfAA as well as *Grundförderung* attributions as dependent variables indicate a negative relationship between pre-1933 Nazi members.

The 35 electoral districts are aggregated to *Landesarbeitsamtsbezirke*.<sup>13</sup> Another threat to the validity of the instrument is an allocation formula of RfAA outlays directly responding to underlying economic conditions in the states. Wolffsohn (1977) presents evidence for such a mechanism on Oeffa's distribution code for both the *Sofortprogramm* and the 1st Reinhardt program. The Oeffa means are allocated due to the regional share in national unemployment.<sup>14</sup> Also, Herrmann (1993, p. 167) emphasizes additional funding for areas with persistently high levels of unemployment in the fiscals 1936/37 and 1937/38. To alleviate concerns regarding the RfAA following a similar distribution the local shares of unemployed in the federal totals are included. Adding such a potentially endogenous variable, one might risk adding multicollinearity to the estimation with the benefit of reducing problems with omitted-variable bias. Monthly figures of unemployed in the states are collected from *Reichsarbeitsblatt*.

The reliability of employment and unemployment figures has been doubted several times as Ritschl (2002b) presents full-time employees as of 1938, correcting for both limited coverage of the Health Insurance records through the 1920s and varying working hours. Dimsdale et al. (2006) control in the spirit of Balderston (1993) for labour participation in the occupational census of 1925 and 1933 as well as the increasing coverage of the Health insurance data and limited coverage of mandatory insurance. Facing the scarcity of labour, labour administrations accounted for the total workforce from 1937 onwards and present estimates for the previous years as the sum of employed blue- and white-collar workers, people out-of-work and sick persons.<sup>15</sup> The included control reconstructs those estimates on a regional level to deal with hidden unemployment and labour market participation

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<sup>13</sup>Aggregation of electoral districts to *Landesarbeitsamtsbezirke* follows Frey and Weck (1981, 1983) employing Preller's (1949) table of regional equivalences as shown in Appendix A.2, Table A.1.

<sup>14</sup>Wolffsohn (1977) includes the distributions scheme but states, that there is no evidence on de facto payments. Table D indicates that Oeffa funds within the *Sofortprogramm* are distributed among the states by the regional share in total unemployment as of January 1933. Table F shows the same pattern for the 1st Reinhardt program on basis of the unemployment figures as of 30 April 1933. Table G and I show that regional allocations of federal subsidies for building repairs and extensions as well as division of flats followed the states population figures.

<sup>15</sup>The workforce variable in Table 2.1 resembles the approach taken in Tables XXIX. and XXXI. in *Statistische Jahresübersichten für 1937* in *Reichsarbeitsblatt* and extends the series back to 1933.

Table 2.1: Summary Statistics, Sample Period: 1933-1937

	Mean	SD	Min.	Max.	<i>N</i>
<i>Panel A. Dependent variables:</i>					
Change in employment (p.c.)	0.0174	0.0072	-0.0024	0.0323	65
Change in unemployment (p.c.)	-0.0137	0.0096	-0.0396	0.0049	65
<i>Panel B. Explanatory variables:</i>					
Change in RfAA payout (10,000 RM p.c.)	0.0000	0.0002	-0.0005	0.0012	65
Vote share Nazis, share	0.8302	0.2265	0.2731	0.9975	65
Working population, in millions	1.4578	0.5882	0.4950	2.6453	65
Regional share in total unemployment, share	0.0769	0.0486	0.0078	0.2033	65
<i>Panel C. Instruments:</i>					
Shift share instrument (10,000 RM p.c.)	0.0000	0.0002	-0.0003	0.0006	65

rates. Table 2.4 presents a robustness check based on alternative employment figures from the IfK for the available period of the series throughout the fiscals 1933/34 and 1934/35.

Summary statistics for the main variables are presented in Table 2.1. Employment, RfAA payouts and the Shift share instrument are normalized by the state's residential population and in Diff specification. There is sufficient variation in both RfAA payouts and employment across states and time. The Nazi vote share is the regional share of polls in advance of the NSDAP or their candidates. Working population is the number of people able to work in the respective state defined as the total of employed white- and blue-collar workers, unemployed and sick. The unemployment variable is the regional share of the unemployed in the national total.

Table 2.2: First Stage Regressions

	IV			
	(1)	(2)	(3)	(4)
Shift-share Instrument	1.133*** (7.817)	1.153*** (7.237)	0.925*** (4.152)	0.784** (2.667)
Vote share Nazis, share		-0.000 (-0.014)	0.001** (2.741)	0.001*** (3.195)
Working population, in millions		0.000 (0.513)	0.001* (1.906)	0.001** (2.265)
Total unemployment, share		0.001 (0.960)	0.004** (2.512)	0.004** (2.654)
State FE	✓	✓	✓	✓
Controls		✓	✓	✓
Time FE			✓	✓
Population-weighted				✓
Observations	65	65	65	65
$R^2$	0.62	0.62	0.67	0.69

*t* statistics in parentheses

\*\*\* Significant at the 1 percent level.

\*\* Significant at the 5 percent level.

\* Significant at the 10 percent level.

## 2.5 Baseline Results

### 2.5.1 First Stage

In Table 2.2, results from several first-stage regressions are provided for the two-stage least squares estimation. The dependent variable is the difference in RfAA payouts in 10,000 RM per capita of residential population.

The model in the first column is a simple bivariate regression with state fixed effects of the outcome variable on the shift-share instrument. 62 per cent of the variation in RfAA payouts are explained by the instrument solely coming with

an  $F$ -statistic of 62.07 in the second stage. The Models 2 to 3 add stepwise a set of covariates including the regional vote share of the Nazi party, the working population, the share in total unemployment (2) and time fixed effects (3). The latter is the setting referred to as baseline with an increase in the explanatory power to 67 per cent while reducing the coefficient on the instrument to 0.925 in comparison to Model 1 and 2. The associated  $F$ -statistic is 17.55 in the second stage. The controls become statistically significant in the first stage when adding time fixed effects but their estimates remain small. The shift-share instrument, which is based on the distribution of funds in a baseline period is found to be positively correlated with the subsequent attribution of RfAA public work creation funds. The instrument is statistically significant at the one per cent level in the set of first stage regressions except for Model 4. Model 4 refers to Ramey (2019) proposing a weighting of the included states. While increasing the amount of variation explained the  $F$ -statistic falls well below ten implying a weak instrument. The reason for the instrument to be weak lies in small sample properties which already apply to the baseline case with 65 observations. Weighting reduces this sample size even further to five equally weighted observations per one of the 13 states implying a decrease in the first stage power and an increase in susceptibility to influential outliers (Chodorow-Reich, 2020).

### 2.5.2 Baseline Results

A series of regressions is shown in Table 2.3 with the change in employment as a function of federal spending in the regions. The spending variable is in 1933 RM while all variables are in per capita terms. The first five columns report least squares estimates, while columns 6 to 9 report those from the Two stage least squares. Each cell contains both, the estimate and the t-statistic in parentheses. The estimates in the first row can be thought of as jobs created for one year per additional 10,000 RM per capita spent. Consequently, the costs per job year in the penultimate row equal 10,000 RM divided by the number of job years in the very first row. The corresponding delta-method standard errors are shown in the last row. The least squares estimate without any controls suggests, that 11.3 jobs are created by an additional spending of 10,000 RM. Vice versa this

sum divided by the additional jobs created gains the costs per job year in the second last row. Adding state fixed effects, within a first difference specification interpreted as a state specific time trend, changes the results only slightly to 11.186 created jobs. Adding the set of controls including the Nazi vote share, the working population and the regional share in total unemployment increases the results to 12.349 jobs created by an additional 10,000 RM. The estimates of the controls are small and statistically insignificant. Including time fixed effects controlling for aggregate shocks related to changes in monetary policy or the change from balanced budget policies to deficit spending in the 1930s increases the multiplier to 15.348. With an increase in the multiplier, the costs per Job Year decrease to 652 RM. Adding time fixed effects Model 5 is the population weighted version of Model 4. Weighting reduces the multiplier to 14.819 job-years generated by additional RfAA payments. The estimated costs per additional job-year vary in the range of 652 and 894 RM in the OLS estimations.

Due to concerns about simultaneity and endogeneity this paper makes use of an IV estimation with a shift-share instrument. The Kleibergen-Paap  $F$ -statistic are well above 10, the rule-of-thumb value commonly used for the Two-stage least squares estimations in columns 6 to 8 (Kleibergen and Paap, 2006). In the case of the population weighted regression the Kleibergen-Paap  $F$ -statistic shrinks below ten suggesting a weak instrument, which could have been expected due to small sample properties (Chodorow-Reich, 2019). In consequence, we further focus on models with strong instruments. The IV regression including state-fixed effects in Model 6 suggests 10.869 jobs created per 10,000 RM additional spend. Adding a variety of control variables as described in Section 2.3 in Model 7 increases the coefficient on Total RfAA payouts to 13.284 while the t-statistic decreases. The statistical significance remains unchanged at the one per cent level. The baseline specification includes both, time and state fixed effects as well as the set of covariates. The coefficient changes under Model 8 only slightly to 14.173 but the t-statistic reduces which impacts the statistical significance. The coefficient is still significant at the five per cent level. In comparison to the implied job-costs per year for the OLS estimates costs increase only slightly under the IV setting to 706 to 920 RM. Again, OLS and IV results suggest surprisingly similar estimates indicating that the potential endogeneity problem is not as strong as assumed.

Table 2.3: Total Employment Baseline Results

	OLS					IV			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total RfAA payout (10,000 RM p.c.)	11.301*** (7.013)	11.186*** (6.805)	12.349*** (4.628)	15.348*** (7.375)	14.819*** (7.325)	10.869*** (6.051)	13.284*** (5.209)	14.173** (2.814)	15.932** (2.378)
Vote share Nazis, share			0.005 (1.329)	-0.008 (-1.625)	-0.007 (-1.495)		0.006 (1.523)	-0.007 (-1.080)	-0.007 (-1.300)
Working population, in millions			-0.015 (-0.957)	0.018 (1.690)	0.019* (2.030)		-0.014 (-0.900)	0.019 (1.378)	0.018 (1.458)
Total unemployment, share			0.074 (0.675)	-0.006 (-0.118)	0.021 (0.497)		0.075 (0.702)	-0.001 (-0.016)	0.017 (0.461)
State FE		✓	✓	✓	✓	✓	✓	✓	✓
Controls			✓	✓	✓		✓	✓	✓
Time FE				✓	✓			✓	✓
Population-weighted					✓				✓
Observations	65	65	65	65	65	65	65	65	65
Landesarbeitsamtsbezirke		13	13	13	13	13	13	13	13
$R^2$	0.14	0.21	0.25	0.80	0.80	0.20	0.25	0.80	0.80
Instrument F-stat.						62.07	53.25	17.55	7.24
Costs per Job Year	884.91	893.98	809.75	651.57	674.82	920.05	752.76	705.58	627.69
SE Costs per Job Year	126.19	131.37	174.98	88.35	92.13	152.05	144.51	250.74	263.92

*Notes:* Standard errors of the cost per job year are calculated using the delta method.

*t* statistics in parentheses

\*\*\* Significant at the 1 percent level.

\*\* Significant at the 5 percent level.

\* Significant at the 10 percent level.



## 2.6 Robustness Checks

### 2.6.1 Alternative Specifications

The robustness of the baseline results is evaluated in Table 2.4. The first set of regressions evaluates the sensitivity of the baseline specification to the inclusion or exclusion of the control variables. The estimates of the job-year multiplier if controls are omitted are shown in the second row. The coefficient on RfAA payments is larger without controls and statistically significant at the five per cent level. A possible objection to the specification is the reliability of the outcome variable. One possible threat is imposed due to whitewashed employment and unemployment statistics as well as hidden unemployment. To address the first-mentioned concerns an alternative employment series of the IfK is used in a restricted sample and compared to the health insurance series in rows six and seven. The latter can be illustrated easily. Many measures taken substantially altered labour market participation rates. Since unemployment benefits had been cut to a minimum and were restricted in size and scope during the Great Depression people had been discouraged to register at the unemployment exchanges. When these unobserved unemployed return to the labour market they cause an upward bias in the outcome variable.<sup>16</sup> A similar effect is obtained by marriage loans nudging female workers out of the workforce until reintegrating them when full employment was approaching. In both cases, results would be biased by labour market participation rates. The inclusion of a workforce variable as control lowers the estimate on payments to 13.455.

In the fourth and fifth row the validity of the instrument is evaluated. If the controls are correlated with the instrument it is in question. The choice of the included controls is driven by the literature on the regional allocation of public work creation funds. One might imagine that early supporters of the Nazi party hoped to be rewarded after the ascension to power. In turn, the administration seemed to be proven helpful to those in their favour. Districts exhibiting higher

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<sup>16</sup>First estimates of hidden unemployment in interwar Germany are provided in Hemmer (1935). The problem is also discussed in Grebler (1937b,d). Both, Balderston (1993) and Dimsdale et al. (2006) account in their revised employment series for labour market participation and hidden unemployment.

Nazi vote shares experienced a more rapid growth in public employment (Maurer, 2018). In the process of allocating labour workers had been given a preferential treatment who engaged in the „national movement“ at the employment exchanges (Mason, 1977; Silverman, 1998). Thus, as a robustness check the fourth row shows the result on the multiplier estimate for the regression including the regional Nazi vote share. The number of jobs per additional 10,000 RM spent is slightly higher as in the baseline. As the public work creation schemes are created to overcome the Great Depression the instrument could be proven invalid if the assignment of appropriations follows some endogenous criterion. For the attribution of subsidies for the reconstruction and repair of dwellings through the Reichs budget this does not hold true. Federal Resources of this measure had been made available on the basis of the number of inhabitants in the respective states. In contrast the drafted budgets of the Oeffa directly responded to local labour markets when allocations of loans followed the regional share in total unemployment (Wolffsohn, 1977). In this regard, the fifth row presents the IV coefficients on the stimulus variable when the regional share in total employment is added as control. The estimate on the multiplier is the largest in this set but still only slightly higher than the baseline specification.

In the rows seven and eight two robustness checks are performed due to potential measurement error in the Health Insurance employment data employed in the baseline specification. The Institut für Konjunkturforschung produced an alternative measure of employment in the states up until 1934.<sup>17</sup> They use a broader measure of additional employment. The Health Insurance series includes emergency relief workers and *Landhelfer* as additional employment. The IfK includes people employed in the voluntary labour service and in care on top. The extended coverage of employment forms reduces the measurement error to a minimum. The job-years multipliers obtained on the available sample period of both series are very close, suggesting that the initial results based on Health Insurance data are not exposed to biases due to measurement error.

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<sup>17</sup>The differences in the employment series of health insurance and IfK data as well as ways of windowdressing are discussed in *Wochenbericht des Institut für Konjunkturforschung*, Vol. 7 No. 10; Vol. 8 No. 33 and Vol. 9 No. 3 as well as “*The Economist*” No. 4798. A visualization of included employment forms in the employment series of the IfK and the Health insurance can be found in Table A.3 of Appendix A.6.

Table 2.4: IV Regression Results, Alternative specifications, and Data Choices

	RfAA payments $\beta$ / SE
<i>Sensitivity to specification:</i>	
Baseline	14.173** 5.036
No controls	16.042** 5.863
Control for working population	13.455** 4.672
Control for Nazi vote share	15.803*** 4.632
Control for Unemployment	16.215** 5.911
<i>Sensitivity to employment series - Sample 1933/34-34/35:</i>	
IfK	17.704** 6.242
Health Insurance	18.121*** 5.580
<i>Sensitivity to Weightening:</i>	
by population 1933	15.932** 6.699
by area	15.324** 5.529
by population density	12.469* 6.196
<i>Sensitivity to Outliers:</i>	
drop East Prussia & Rhineland	25.162 45.371
drop East Prussia, Rhineland, Saxony & Nordmark	15.421 19.097

\*\*\* Significant at the 1 percent level.

\*\* Significant at the 5 percent level.

\* Significant at the 10 percent level.

*Notes:* The outcome variable is the change in the employment-population ratio while the values in the column reflect the coefficients on the RfAA payments and the associated standard errors.

Ramey (2019) objects to giving equal weights to heterogeneous states in regard of cross-sectional IV regressions evaluating the multiplier effects of government spending. If treatment effects are heterogeneous among states, the obtained multiplier reflects the economy-wide one improperly. Rows eight to ten present three robustness checks related to weighting choices. Dupor and Mehkari (2016), Dupor et al. (2023) and Ramey (2019) propose a weighting by state population. The aforementioned find much lower estimates in the case of population weighted multipliers than in the unweighted one, while Acconcia et al. (2014) and Dupor and Guerrero (2017) find only minor alterations. This contradicts to the slightly higher estimates obtained here. This paper focuses on the unweighted version of the regression since weighting by population imposes larger biases and estimation variability in the small sample covering 13 states (Chodorow-Reich, 2020). The following row displays the results for an area weighted estimate, which is in size comparable to the population weighted one. One might be concerned about the underlying industrial composition of the states. While less populous states with a rural structure are more likely to produce agricultural goods, strongly industrialized regions exhibit high population densities. Weighting by population densities puts a higher emphasize on employment in more industrialized regions. The resulting estimate on the multiplier reduces to 12.469. This points to a lower multiplier effect in stronger industrialized regions.

The following set of robustness checks summarizes the results presented in Section 2.6.2. Excluding both East Prussia and Rhineland increases the estimate to 25.162. Dropping additional Saxony and Nordmark increases the multiplier to 15.421. In both cases the estimate on the job-year multiplier is associated with high standard errors and becomes statistically insignificant. In general, as Figure 2.3 indicates, there is no reason to believe that the baseline results are disproportionately driven by outliers.

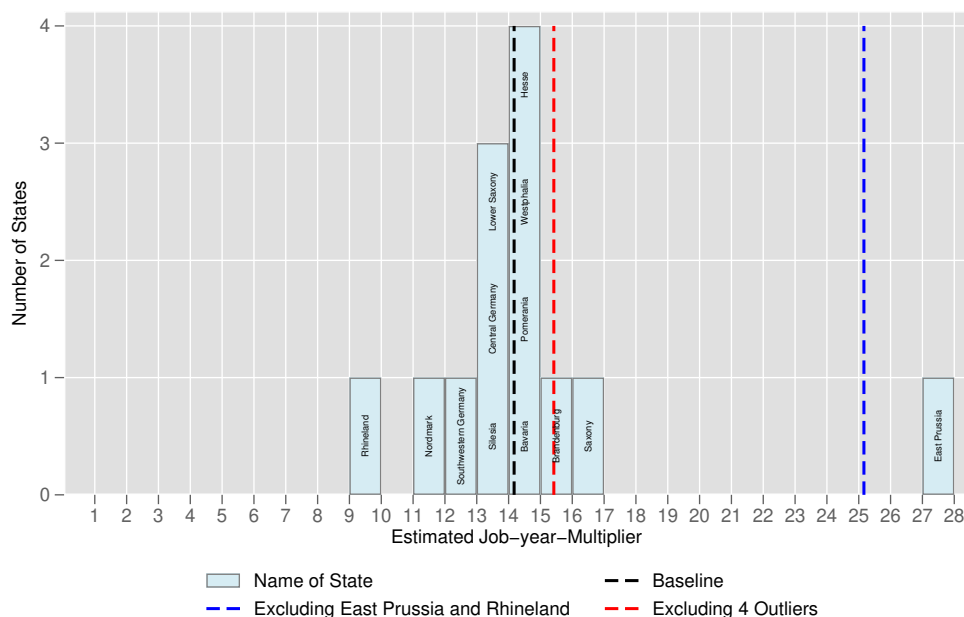
## 2.6.2 Outlier Analysis

To test for outliers the baseline regression is iterated for 13 times while dropping each time one of the 13 states. In contrast to evaluating the regional multiplier for each state separately excluding one state preserves the panel dimension to include

time fixed effects. Figure 2.5 depicts a balanced amount of outliers in both directions. For instance, excluding the Rhineland lowers the estimated multiplier to 9.848 job-years created by an additional 10,000 RM per capita spent. The conclusion drawn from this exercise is that the multiplier effect in state Rhineland is the highest in the sample. In contrast excluding East Prussia increases the multiplier to 27.232. If both states are excluded the estimate lowers to 25.162. Excluding the state Southwestern Germany, Silesia, Central Germany, Lower Saxony, Bavaria, Pomerania, Westphalia, Hesse or Brandenburg delivers multipliers in the range of 12 to 16 job-years created by an additional spending of 10,000 RM spent. The baseline specification suggests a multiplier of 14.173 in the range of this fat tail.

For a deeper understanding of Figure 2.5 it is necessary to recall that if, for instance, the Rhineland is excluded from the panel only 9.848 job-years are created. In turn, this means that each RM spent in this district amplifies more strongly in employment than in any other state while the costs per additional job-year are the lowest over the sample. The employment offices in the districts could influence the multiplier through the wage and the working hours. Wages for emergency relief workers differed in the way that industry-specific collectively agreed wages were paid depending on the nature of the works. For instance, public relief workers within railroad or hydraulic structures constructions received 45 and 47 *Pfennige*, respectively as hourly compensation while the construction of barracks was more lucrative. In addition, employment offices were allowed to set wages for emergency relief workers below the collectively agreed ones. The other mechanism is regulating the working hours. Within public relief works the ceiling of weekly working time had been forty hours. Since especially families with many children had been worse off under public relief works wages in comparison to unemployment benefits in combination with family allowances fathers of those families were occasionally allowed to extend their working time to up to 48 hours per week (Humann, 2011, pp. 294-300). Unfortunately, there is no data available on regional wages and working hours to control for the aforementioned

Figure 2.5: Outlier Analysis



variations.<sup>18</sup> In absence of those controls, this paper implicitly assumes, that both wages and working hours are comparable across districts. This leaves two possible explanations for the variation depicted in Figure 2.5: First, the variation in the multiplier reflects the composition of public relief works. As, for example, East Prussia might have undertaken works with higher wages as in civil engineering which might be reasonable to believe under the spatial segregation from the German Reich and the Eastern Aid. Second, the multiplier can depend on the state of the local labour markets (Buchheim et al., 2020). To recall the example of East Prussia, Appendix A.4 shows that it was less affected by unemployment from 1933/34 through 1937/38 as the Rhineland which implies a low multiplier effect for the first mentioned. In contrast, in a slack labour market as the Rhineland, the multiplier effect is supposed to be high.

<sup>18</sup>Grumbach and König (1957, p. 144) present regional wage differentials for the iron and steel industry, construction industry and textile industry on five-year intervals between 1888 and 1937 from the professional associations. Both the regional subdivision and the reporting period are unsuitable for an inclusion as control. The same applies to region- and sector-specific estimates on weekly working hours from Hachtmann (1987, pp. 209-210, 216).

## 2.7 Implications and Comparisons with Other Studies

### 2.7.1 Magnitude of the Job-costs per year

The implied job-costs per year under the baseline specification of 705.58 RM is comparably low. Table 2.5 puts the estimated job-costs per year to perspective relative to purchasing power. The rows 2 to 4 provide measures of income and unemployment benefits. The job-costs were about 1.2 times as high as costs for unemployment benefits and roughly half of an annual wage in 1933. The costs were equivalent to the average earnings of about 1,023 hours or approximately 26 weeks of work. Column 2 provides the 2019 Euro equivalent to the 1933 Reichsmark payment while column 3 the same measures of column 1 for 2019 displays. In 2019 Euro the job costs would amount to 3,246 which is well below the payments under the German Hartz IV scheme which amount to 5,088 Euro. Buchheim and Watzinger (2023) find job-costs per year of 24,000 Euro for countercyclical investment in Germany. The last three rows consider purchasing power in particular. One 1933-RM had the purchasing power of 4.6 Euro in 2019. The price of the cheapest Opel, back in 1933 Opel was the biggest automotive manufacturer in Europe, was 1,990 RM which would be roughly 9,150 Euro today. As of 2019, the cheapest Opel would cost 14,000 Euro. Another important innovation of the interbellum was the radio, which became under the name *Volksempfänger* a mass product. Its purchase charged with about five per cent of an annual wage.

### 2.7.2 Job-costs and wages

Direct conclusions on the wage level being paid within public work schemes cannot be drawn from the job-costs per year comparable to the level of unemployment benefits, but since one can abstract from intermediate products in the case of labour-intensive public works, they can be thought of as gross employer costs. The employer must deduct the employer's contribution to the social security scheme, the employees' share, and payroll taxes, while additional funding sources such as local governments, the federal budget, or public banks such as the Oeffa could have been used to increase the remunerations of emergency relief workers. Considering

Table 2.5: Magnitude of the Job costs

	1933	2019 equivalent	2019
Job costs per Year	705.58 RM	3,245.67 €	
Annual unemployment benefits	600.00 RM	2,760.00 €	5,088.00 €
Average annual wage	1,440.50 RM	6,626.29 €	45,015.00 €
Average hourly earnings	0.69 RM	3.18 €	33.81 €
Purchasing power	1.00 RM	4.60 €	4.60 €
Price of cheapest Opel	1,990.00 RM	9,154.00 €	13,990.00 €
Radio	76.00 RM	349.60 €	

*Sources:* Unemployment benefits: Statistisches Reichsamt (1933a), Regelbedarfsstufe 1 in BGBI. I S. 1766 (Nr. 36); Wage and hourly earnings data: von Lölhöffel (1974), Statistisches Bundesamt - Fachserie 18 Reihe 1.1: 2.15 and 2.16; Purchasing Power: Deutsche Bundesbank; Car Prices: Lagis Hessen and opel.de.

*Remark:* The *Länderrat des Amerikanischen Besatzungsgebiets (1949, p. 469)* provides an alternative estimate of 67.5 Rpf. for the average hourly earnings of an industrial worker in 1933.

the limited coverage of the RfAA spending variable and the labour tax wedge, further historical evidence on public work wages is needed.

The situation report on the progress of work-creation programs from 1937, prepared in the Reich Ministry of Finance, assumed that four-fifths of all workers in road construction, canal construction or similar labour-intensive measures were paid RM 90 per month. One-fifth of the workers were to receive RM 125 and RM 155 per month respectively. Consequently, an average monthly wage for emergency relief workers of 100 RM was assumed (BA R 2/18701). These figures are partly undermined by a survey of average monthly wages in Dortmund from October 1934, a city with a comparatively high wage level by then. Emergency relief workers were estimated to be off with 80 to 100 RM per month. In general, the working hours were limited to 40 hours per week, with pay being based on the collectively agreed hourly wages. Those varied from sector to sector as well as from region to region. While public relief workers in regions with a low wage level employed at civil engineering sites received 40 to 42 Rpf. in Detmold they were paid 47 to 56 Rpf.. The most widespread public relief works, not least because of their low wages, were meliorations and soil improvements. 36 Rpf.



per working hour at the latter kind of relief works was paid in Detmold. In Swabia, hourly earnings at construction sites of the *Reichsbahn* and at hydraulic structures were estimated to be in the range of 45 and 47 Rpf.. The legal grounds undermine collectively agreed hourly wages for emergency relief works had already been enshrined in the law introducing the unemployment insurance. While it remains unclear how often this possibility was exploited, the limitation of working hours already led to a disproportion between wages and welfare benefits. A broad majority of emergency relief workers were financially worse off in their paid jobs than recipients of transfer payments. Those imbalances were also reported to the RfAA but inquiries to improve the general situation of workers by increasing the wage level were rejected in late 1933 with references to a further strain on the Reich budget and the general development of wages. The situation most certainly did not improve when the daily subsidy of the *Grundförderung* was cut from 3 to 2.50 RM on 1 March 1934. This decision appears to be rather odd against the background that, especially during the winter of 1933/34, federal authorities had promoted the preparation of public relief works purely funded with those basic subsidies and that Hitler announced the third phase of the “Battle for Work” in the same month (Humann, 2011, pp. 262, 291-298). There is reason to believe that, due to financing constraints, the vast majority of public relief works were exclusively funded by the RfAA *Grundförderung*. Figure 2.2 with its share of workers employed by means of the basic subsidy supports this claim.

Besides emergency relief workers, two additional groups are covered in the RfAA spending variable: land helpers and women in the Labour Service. For the first-mentioned group, a farmer with no more than forty hectares could have received up to 25 RM monthly per man under 21 hired from the RfAA in order to provide board and lodging as well as a decent wage, while the rate for women was cut to 20 RM.<sup>19</sup> This remuneration maximum to farmers was not reached in the majority of cases, but was on average 18.50 RM (Humann, 2011, pp. 534). The amount which was granted by the RfAA was intended to cover both wages and social security contributions (RABl. 1934 II, p. 95). The wages of land helpers were not based on fixed rates but were to take into account the agricultural wage

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<sup>19</sup>The evolution of subsidies for land helpers granted to farmers with respect to eligibility, duration and extent are discussed in Wolf (1935, pp. 74-75).

level at the place of employment as well as the qualification and employees' age (RABl. 1933 I, p. 87). In February 1934, the RfAA conducted a cash wage survey on monthly earnings and found 75 per cent of male land helpers were paid between 16 and 25 RM while 71.5 per cent of female land helpers had been in the income group between 14-20 RM (RABl. 1934 II, p. 97).<sup>20</sup> The wages of land helpers have not been subject to unemployment insurance contributions anymore since October 1933, (RGBl. 1933 I, p. 656) but in any other way, the employment relationship of a land helper was equated to a regular one. The employee was required to pay two-thirds of his health insurance contributions and half of his invalidity insurance contributions, while the proprietor covered the remaining complementary share and the casualty insurance contributions in full (Wolf, 1935, pp. 69-70).

The Women's Labour Service addressed young women between the ages of 17 and 25. In addition to a daily allowance of 20 Rpf., participants were provided with accommodation in camps, food and, if available, uniforms. On 1 April 1936, funding was transferred from the RfAA to the Reich federal budget with the consequence that principals of the work were to pay an expense allowance corresponding to its economic circumstances. The activities of the labour service ranged from supporting farmers to doing social work. Except for female students for whom the service became compulsory as of 25 June 1935, the Women's Labour Service remained voluntary up until 1939 ("Wirtschaft und Statistik", 16. Jahrg. 1936, Nr. 4; and 18. Jahrg. 1938, Nr. 4). The same law guaranteed all members of the Reich Labour Service a right to free medical treatment and care while they had already been subject to compulsory casualty insurance as of 1 April 1935. The insurance premiums for the latter were paid by the principals (RABl. 1935 I, pp. 771, 1094). The service did not entitle to unemployment benefits, nor was it subject to compulsory unemployment insurance. Welfare transfers were suspended during service (Herwig, 1935, p. 24). The cash and non-cash remunerations of participants in the Reich Labour Service were tax-exempted on the basis of the Income Tax Amendment of 16 October 1934 (RABl. 1934 I, p. 1007).

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<sup>20</sup>The wage survey table is reprinted in Humann (2011, p. 572). See Herrmann (1993, pp. 63-66) and Humann (2011, pp. 534-593) on the particular situation of land helpers in regard to working conditions, wage disputes and recruitment.

The outlined cases of emergency relief workers, land helpers and women in the labour service showed that all of the presented forms of work had been, at least in terms of monetary compensation, worse off than welfare recipients. Social security had only in the case of emergency relief workers been equivalent to regular employment, while land helpers and women in the Labour Service lacked unemployment insurance. The estimated job costs of 705 RM are an upper bound for the wages received by the people in the various employment forms. In general, one can conclude that wages were below the welfare level of 600 RM.

### 2.7.3 Overall Impact of RfAA payments

This section turns to the economic implications of the estimated job multiplier. As noted above, it must not be mistaken for a national job multiplier. The job multiplier calculated within this paper is an average treatment effect of regional RfAA payments within the states. To draw conclusions on the national multiplier from the local multiplier we are in need of further assumptions. Depending on the sector regional openness can either result in higher or lower estimates in comparison to the aggregate multiplier (Moretti, 2010). Same applies to the persistence of payments from which is abstracted in the framework of cross-section studies. A deficit-financed local multiplier gives the lower bound for a closed economy national multiplier financed by external borrowing under inactiveness of monetary policy. If, as in the case of the RfAA local transfers finance the local spending within the states, spending is transitory and the states are relatively open the output response is small (Chodorow-Reich, 2019). Nakamura and Steinsson (2014) as well as Farhi and Werning (2016) find that substituting deficit-financed payments with outside-financed spending increases the multiplier by less than 0.1 in the case of a typical government spending multiplier.

Under the aforementioned conditions the nationwide aggregated number of jobs created by RfAA payments is calculated as follows: the yearly difference in spending is multiplied by the job multiplier estimate given in the baseline specification. This yields the annual additional employment induced by the difference in RfAA spending. In order to obtain the total number of jobs created in a respective year relative to the fiscal 1932/33 one needs to sum over the additional

jobs created in the respective years. For illustrative purposes consider the baseline IV in Table 2.3 which implied that per 10,000 RM spent by the RfAA 14.173 job-years were created. The outlays on public work creation by the RfAA was increased by roughly 211 million RM from the fiscal 1932/33 to the succeeding 1933/34 implying 251,000 additional jobs created as in absence of the public work creation of the RfAA. From 1933/34 to 1934/35 the spending was increased further by 45 million RM inducing another 52,000 jobs which cumulate to 303,000 jobs created in 1934/35 relative to 1932/33. The relative importance of RfAA funding for employment decreases from the fiscal 1935/36 onwards when public work creation jobs created reduce to 213,000. In 1935/37 still 69,000 jobs are created which halve to 33,000 in 1937/38.

Table 2.6 summarizes the jobs created year-wise from before and relates them to directly employed emergency relief workers under the RfAA public work creation schemes. The fourth column displays the additional total employment relative to the fiscal 1932/33 and shows that 20.6 per cent of the employment gained in 1933/34 solely base on RfAA relief works. Similar results on the scope of public works within the recovery on the labour markets in 1933 are obtained by Fremdling and Staeglin (2015, p. 12) and Overy (1987, pp. 265-266). This share diminishes after its peak in the first year of the sample and becomes negligible up until 1937/38. The calculated number of jobs created in the second column is only slightly higher as the number of RfAA emergency relief workers directly employed within the projects funded in column 3. This implies that secondary employment effects are very low. The secondary employment effect between 1934/35 and 1936/37 is equivalent to roughly 25 per cent or on 100 persons directly employed in public relief works come 25 in the private sector. Those numbers have to be treated with caution since additional to RfAA emergency relief workers, other forms of employment like Land helpers and the *Frauenarbeitsdienst* had been promoted by the RfAA. Reliable numbers on average annual employment in those schemes are not available but single figures indicate to close the gap between the number of created jobs and the emergency relief workers purely employed with RfAA contributions. There might be two implications drawn from this insight. First, labour-intensive public work creation as conducted by the RfAA is unsuitable to jump-start the economy heading to a self-sustaining recovery due to

Table 2.6: Estimated Number of Jobs created by RfAA spending

Fiscal year	Predicted number of jobs	RfAA emergency relief worker	Additional employment
1933/34	250,766	227,571	1,215,528
1934/35	303,268	240,168	2,856,205
1935/36	213,133	166,882	3,826,729
1936/37	68,958	55,510	5,007,647
1937/38	33,425	10,941	6,303,692

*Sources:* Column 1: own calculations; Column 2: RfAA emergency relief workers are from Humann (2011); Column 3: additional total employment relative to fiscal year 1932/33 based on monthly health insurance records.

weak secondary effects but might have helped to show rapid results of the Nazi administration on the labour markets. The reasoning behind this lies in wages barely above the level of unemployment benefits which lack generating additional income and thus consumption.<sup>21</sup> Second, the role of emergency relief works employed within a large variety of public work creation schemes might shed another light on the low fiscal multipliers between 1933 and end 1934 in Ritschl (2013). The diminishing relevance of emergency relief works in Figure 2.2 coincides with increasing multipliers from 1934/35 onwards. This might reflect both, a swing to capital-intensive public work creation as the slowly starting highway construction and rearmament as well as the way of financing by growing government deficits.

#### 2.7.4 RfAA payments and Labour statistics

Labour market statistics in National Socialist Germany were viewed doubtfully by contemporaries and researchers alike because of their miraculous development. Both employment figures and the number of unemployed recovered faster than

<sup>21</sup>The additional vitalizing effect of wages exceeding benefits and additional expenses on supplies on the economy is already described in Mittelman (1938, pp. 515-516). As Section 2.7.2 showed, wages were not significantly above the level of welfare benefits. Works with RfAA funding were rather labour-intensive.

in other industrialised nations in an international comparison. Baerwald (1934), Hemmer (1935) and *The Economist* (1935) have already narrowed the question of whether those numbers were doctored or the result of a rapid recovery to two aspects. First and foremost, how people in various work-creation forms such as emergency relief work, Voluntary Labour Service, and Land Help were accounted for in both employment and unemployment statistics, and second, whether the registered unemployed accurately represented the true number of unemployed.<sup>22</sup>

The latter question addresses the extent to which individuals who became unemployed still had an incentive to register as unemployed with employment offices. Since a series of laws exempted various professions from compulsory unemployment insurance and thus they neither paid contributions nor could expect transfers in case of unemployment, these groups no longer had an incentive to register as unemployed (Silverman, 1988, p. 207). The occupational groups affected were housekeepers (May 1933) and workers in agriculture, forestry, and fishing (October 1933). In total, those measures affected around 3 million people working in these professions, although at least in agriculture, around 1.6 million had already been exempted from compulsory insurance beforehand (Humann, 2011, pp. 618-621). Similarly, the official practice of placing only statistically registered unemployed persons in work, which can be documented from late summer 1933 onward, had the goal of ensuring that invisible unemployment continued to remain invisible (Humann, 2011, p. 623). Measures aimed at pushing various groups of employees out of the labour force had a similar effect. Examples include the incentives provided by the marriage loans, which made it a condition that the newly married woman leaves the labour force, or the various measures against double income households.

For the earlier question in regard to the composition of employment and unemployment statistics, it is necessary to recall the definitions and track changes in both variables. The employment statistics of the interwar period knew two important series: one based on the Health Insurance Statistics and, with extended coverage, the estimate from the *Institut für Konjunkturforschung*. The employ-

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<sup>22</sup>On the reliability of labour market statistics in the 1930s, the contributions of Mason (1977), James (1986), Hachtmann (1987), Silverman (1988, 1998), Tooze (2001) and Humann (2011), among others, should be noted.

ment series based on the health insurance records covers industrial workers, trade and transport workers, agricultural and forestry workers, white-collar workers, housekeepers, Land Helpers and emergency relief workers. On top of the previous, the full IfK series, including regular and supplementary employment, covers the Labour Service and public relief workers. As of 1936, the IfK excluded the Labour Service from the series (Wochenbericht des IfK, Vol. 9 No. 3).<sup>23</sup> Table 2.4 presents a robustness check for both series for the period for which data on the local level is available. In the case of unemployment statistics, the recording is subject to major changes in terms of scope and coverage. In 1932, emergency relief and public relief workers were not considered unemployed in the labour market statistics, but Labour Service volunteers and compulsory workers were in case they registered with the unemployment offices. Persons in Labour Service, which amounted to 131,438 persons at the time of the changeover, were statistically excluded from the count for unemployment since 31 July 1933 (RABl. 1934 II, pp. 14\*-15\*). By decrees of 30 November and 15 December 1933, unemployed persons who were difficult to place due to physical infirmities and those persons who were available to the labour market for less than 30 hours per week were excluded from the number of unemployed persons, provided they received welfare transfers. In late 1933, the RfAA issued instructions to the state employment office districts to adjust the unemployment statistics for those who hoped to receive relief such as discounted streetcar tickets or the remission of dog taxes. It was assumed that approximately one million registered unemployed people would be affected (Humann, 2011, pp. 626-629). Another mechanism which affected both unemployment and employment is the introduction of land help effective in March 1933. This employment form, which featured regular employment contracts, absorbed large numbers of school leavers and other young unemployed who never appeared as unemployed (Humann, 2011, p. 615).

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<sup>23</sup>Silverman (1988, pp. 208-209) discusses the IfK's distinction between regular and supplementary employment. While regular employment can be interpreted as the number of people employed in private sector jobs, supplementary employment includes just those in job creation programs. The classification is also part of the corresponding monograph by Silverman (1993, pp. 21-22). Hemmer (1935, p. 97) also points out that this distinction was first made by the IfK in 1934 and was accordingly included in *Konjunkturstatistisches Handbuch 1936* edited by Wagemann. Table A.3 in Appendix A.6 depicts how different employment forms are covered in the employment data of the IfK and Health insurance.

Table 2.7: OLS Results for Unemployment

<i>Dependent variable:</i>	Employment		Unemployment	
	(1)	(2)	(3)	(4)
Total RfAA payout (10,000 RM p.c.)	15.148*** (7.272)	15.348*** (7.375)	-13.499*** (-6.952)	-16.198*** (-6.549)
State FE	✓	✓	✓	✓
Time FE	✓	✓	✓	✓
Controls		✓		✓
Observations	65	65	65	65
$R^2$	0.76	0.80	0.85	0.88

*t* statistics in parentheses

\*\*\* Significant at the 1 percent level.

\*\* Significant at the 5 percent level.

\* Significant at the 10 percent level.

To test the effect of RfAA spending on the labour markets, two possible variables suggest themselves: employment and unemployment. The former effect was examined in the baseline. However, since labour market statistics are subject to scepticism, the effect on unemployment is evaluated in this section. If the specification is correct, one would expect to find the effect which was found for employment in the same dimension with the opposite sign for the unemployed. Table 2.7 presents respective results for a simple Least Squares setting. The coefficients on RfAA payouts with employment as dependent variable mirror very well in the unemployment figures. This means that for about 15 people additionally employed, roughly 13.5 less registered unemployed appeared in the statistics in the case of state and time fixed effects. Including controls, unemployment is reduced by 16 registered persons.

### 2.7.5 Output Multiplier of RfAA payments

The literature on regional multipliers up until 2015 relied in the absence of a GDP broken down to a sub-national level on employment data. Conveniently employment data is unlike GDP data available for Germany from 1925 to 1939 at a local level. While unemployment data is published monthly by county, employment



data is aggregated to the state level at the same frequency. The comparability of the obtained employment multiplier remains low due to the extraneousness of the currency. The mapping into a standard output multiplier measuring the output response in the respective currency per one unit spent facilitates a better understanding. Chodorow-Reich (2019, p. 16) employs a production function approach and implies that capital is fixed in the short run. The output multiplier  $\beta_h^Y$  is related to employment gains by to the following formula:

$$\beta_h^Y \approx (1 - \alpha)(1 + \chi) \frac{Y_t}{E_t} \frac{1}{\beta^E} \quad (2.3)$$

The capital share of output is denoted by  $\alpha$ . Since the labour share on GDP ranged from 73 to 78 per cent between 1925 and 1937 it is common in the literature of structural models of the German Interwar era to assume the capital share  $\alpha$  to be 1/4 (Fisher and Hornstein, 2002; Weder, 2006a,b; Rosenkranz, 2014).<sup>24</sup>  $\chi$  is the elasticity of hours per worker with respect to employment. Using data on average weekly work time from the *Wochenbericht des Institut für Konjunkturforschung* and the employment series based on the Health Insurance records consistently employed along this paper, yields for the sample period  $\chi \approx 0.16$ .<sup>25</sup> Output per worker  $\frac{Y_t}{E_t}$  is the annual gross production value in 1933 RM obtained from the *Wochenbericht des IfK* divided by the employment series. Both variables are averaged over the sample to adapt to the panel structure. The costs per job-year from the last row of Table 2.3 are denoted by  $\beta^E$ . Given the values for  $\alpha$ ,  $\chi$ ,  $\frac{Y_t}{E_t}$  and  $\beta^E$  the employment multiplier of the baseline specification maps into an output multiplier of 4.2. Utilizing the employment series and the index of working time from Ritschl (2002b) to calculate  $\chi$  and  $\frac{Y_t}{E_t}$  leads to an output

<sup>24</sup>Fremdling and Staeglin (2014a, Table 3-1, p. 202) and Fremdling and Staeglin (2014b, Table 4, p. 382) find the capital share calculated from the Input-Output Tables and the national accounts for 1936 to be 48 per cent. *Ceteris paribus*, assuming  $\alpha$  to be 0.48 would collapse the output multiplier to 2.9.

<sup>25</sup>The approximation of the elasticity of hours per worker with respect to employment relates well to current approaches for Germany as in Buchheim and Watzinger (2023), who assume  $\chi = 0.22$ .

multiplier at the same height.<sup>26</sup> The local multiplier is assumed to be equivalent to the aggregate multiplier in case of unresponsiveness of monetary policy, e.g. at the zero lower bound, and if effects of the Ricardian equivalence are quantitatively small (Nakamura and Steinsson, 2014; Chodorow-Reich, 2019).

The literature except for Leduc and Wilson (2013) predominately finds local fiscal multipliers in the range of 1 and 2. The before-mentioned authors estimate the multiplier on highway investment between 1 and 3 in the short run before increasing to a level in the range of 3 and 7 after six to eight years. The estimate on the multiplier obtained in this paper seems to be disproportional high at the first glance but recalling the definition of the spending variable at hand might be insightful. RfAA payouts are a tight measure of public work creation spending and embedded in a large-scale program with different levels of public authorities involved. Figure 2.1 illustrates to which extent the different institutions contributed to the financing of the measures taken. But it still does not include outlays placed by municipalities or states who played as principals of the prospective works undertaken a decisive role.<sup>27</sup> The funding scheme followed a bottom-up approach. Local level authorities developed an infrastructure project predominately in the area of civil engineering with a basic funding and applied for additional resources at the different institutions with the RfAA *Grundförderung* as prerequisite for any further subsidy. An exemplified mixed financing provides Grebler (1937c, p. 346). The RfAA induced both regional authorities outlays and spending from federal funding institutions by contributing non-repayable subsidies to the projects. The tight measure of public work creation outlays inflates the output multiplier. Figure 2.1 indicates that RfAA payments are a fraction of total work creation. Under the assumption that the RfAA payments account for 22 per cent<sup>28</sup> and all other public work creation payments had been regionally distributed in the way the RfAA did the output multiplier collapses to 0.92. The

<sup>26</sup>The series used from Ritschl (2002b) are C.1.5 *Beschäftigung IJK* and C.1.6 *Index der Arbeitszeit*. The latter originates from Hoffmann (1965, p. 214). Employing the aforementioned series to calculate  $\chi$  and  $\frac{Y_t}{E_t}$  leads to an output multiplier of 4.1.

<sup>27</sup>Silverman (1998) gives examples on Frankfurt, Stuttgart and Düsseldorf.

<sup>28</sup>In the budget years 1933/34 to 1935/36, according to Figure 2.1, the average share of RfAA payments in public work creation expenditures was 22 per cent. The *Grundförderung* accounted for only about 12 per cent of the total cost of emergency relief works in the calendar year 1930 (*3. Bericht der Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*, p. 58).

value is well below one for this back-of-the-envelope calculation, which is in line with the deficit financed spending multiplier in Ritschl (2013). One must note that the output multiplier of 0.92 implies job-costs per year of 3207 RM.

Besides the narrow definition of the public works spending variable, the production function approach taken in Chodorow-Reich (2019, p. 16) has implications affecting the size of the multiplier, which might be unsuitable for the present case. In particular, the production function approach evaluates the additional worker employed as productive as the ones who were employed before fiscal stimulus measures were taken. This seems to be questionable for the case at hand where public relief works had to provide supplementary work opportunities by not always economically justifiable measures. In turn, this means that people employed in public relief works are less productive than those in regular private sector jobs. Another argument advocating that public relief workers are less productive than regular workers is that unemployment offices assigned relief works to the unemployed irrespective of their professional training. This circumstance affects the output per worker  $\frac{Y_t}{E_t}$  in equation 2.3. Under the assumption that the wage equals the marginal product of labour, the output per worker  $\frac{Y_t}{E_t}$  might be rather equal to the average annual wage of a public relief worker. From contemporary sources we know that the wages of public relief workers have been slightly below transfers from unemployment benefits so that it seems to be reasonable to assume that  $\frac{Y_t}{E_t}$  roughly equals 600 RM. In addition, the labour-intensive nature of public works with small amounts spent on intermediates affects the capital share of output  $\alpha$ . In absence of exact numbers, henceforth  $\alpha$  is assumed to be 0. According to the reasoning presented, the output multiplier would be 0.99, whereas there is reason to believe that the elasticity of hours per worker with respect to employment  $\chi$  in public relief works is lower than in the overall economy, because additional work in those schemes would be used to hire additional workers rather than expand the daily workload. This fact would reduce the output multiplier well below unity.

## 2.7.6 Comparison with Other Studies

Table 2.8 puts the obtained estimate into perspective. While Panel A displays job costs per year obtained from contemporary sources, Panel B shows those from

modern Input-Output Analysis derived from the 1936 industrial census. The first row is the widely cited Grebler (1937c) estimate which is originally from International Labour Office (1935). The *International Labour Office* refers to studies of the *Institut für Konjunkturforschung* in accordance with the *Statistisches Reichsamt* that estimate the costs of employing one worker for one year to 2,000 RM. 1,000 to 1,200 RM of which are devoted to wages. It is not clear to which studies this value refers, but within the same report they also refer to a calculation of the Institut für Konjunkturforschung (1933) stating that one billion spent in public work creation as of June 1933 would provide employment to 700,000 to 800,000 workers for a year. The implied job costs per year are displayed in row 2.<sup>29</sup> The most sophisticated approach was taken by the *Statistisches Reichsamt* which calculated an employment multiplier for both, a capital-intensive and a labour-intensive public work creation policy. A multiplier is estimated via a 12 times repeated earnings cycle which responds to an initial fiscal impulse while accounting for a decrease in social transfers due to reduced unemployment and an increase in tax revenues caused by a growing employment.<sup>30</sup> Row 3 refers to the example conducted for a labour-intensive public work creation policy as, for instance road construction, melioration or soil improvement. The capital-intensive public work creation referred to in row 4 are orders to build and extend public utilities and transportation services. Bridges, machines and vehicles would be procured by the public authorities in this case.

Panel B in Table 2.8 relates the estimated RfAA spending job multiplier to those obtained from Input-Output Tables based on Fremdling and Staeglin (2014a,b). Their Input-Output Table builds on the uncompleted German Industrial Census of 1936 compiled by the Statistical Office. While Yang and Cho (2015) apply a traditional Leontief-model Fremdling and Staeglin (2020, 2015) extend it by a Keynesian multiplier. Analogously to the study by the Statistisches Reichsamt (1933a) they assume different consumption shares delivering the

<sup>29</sup>The original calculations conducted by the IfK can be found in *Wochenbericht des Instituts für Konjunkturforschung*, Vol. 6 No. 10. The International Labour Office (1935) report gives an overview of national public works policies but remains rather vague in estimates, methodologies and national sources.

<sup>30</sup>Bombach et al. (1981) attribute the study conducted in the *Statistisches Reichsamt* to Wilhelm Lautenbach. As a civil servant he developed expansionary policies to overcome the Great Depression which had been referred to as “Keynesian”.

Table 2.8: Comparison of Job-Multiplier estimates

	Type	Job costs per year in RM	
		lower bound	upper bound
This paper	RfAA spending	706	920
<i>Contemporary estimates</i>			
International Labour Office (1935, p.69), Grebler (1937b,d)	Public Works		2000
Institut für Konjunkturforschung (1933)		1250	1428.75
Statistisches Reichsamt (1933a)	labour-intensive	1162.79	1595.74
Statistisches Reichsamt (1933a)	capital-intensive	1371.43	3084.83
Deutschen Reichsbahn-Gesellschaft	Reichsbahn		2240
<i>Multiplier from Input-Output Analysis</i>			
Yang and Cho (2015)	military spending		3225.80
Fremdling and Staeglin (2020, 2015)	Work Creation	1667.15	2041.78
Fremdling and Staeglin (2020, 2015)	Autobahn	1751.67	2162.15
Fremdling and Staeglin (2020, 2015)	Rearmament	1652.88	2035.89
Fremdling and Staeglin (2020, 2015)	Public Investment	1674.25	2070.13

*Sources:* Figures on supplementary work creation by the Reichsbahn are taken from BA R 43-II/536, Bl. 289.

upper and the lower bound depicted in rows 2 to 5. Their numbers in general exclude the Grundförderung, Arbeitsdienst, Landhilfe and Deutscher Frauendienst since they use Buchheim (2008) as overview of work creation outlays based on Grebler (1937a). The figures on RfAA spending exhibit strong caveats for the crucial years 1933 and 1934 from official annual reports which are used in this paper and do not include Arbeitsdienst, Landhilfe and Landjahr at all. The exemption leads to an upward bias in the estimated multipliers. Figure 2.1 resembles expenditures on work creation broken down to sponsoring institutions by fiscal years. The RfAA budget used in this paper contained the aforementioned measures and overcomes the lack of data on RfAA subsidies, semi-enforced labour and agricultural support described in Grebler (1937a).

The multipliers reported are only for the base year 1936. Estimates for the preceding and subsequent years seem to be rather speculative due to the static nature of their employed methodology. Especially in times of high economic fluctuations

and changing preferences in economic policy their conclusion ignores dynamic effects affecting sectoral linkages within the economy. The respective job costs per year are almost twice as high as the RfAA spending multiplier due to three reasons: First, they exclude especially measures which were devoted to giving many people work at the cheapest costs imposing an upward bias to the job costs. Second, under approaching full employment in 1936 the scarcity of labour leads to higher job costs and third, multipliers are assumed to be higher in times of expansion than in recessions (Auerbach and Gorodnichenko, 2012; Owyang et al., 2013; Ramey and Zubairy, 2018). In general, one might object that the inclusion of a Keynesian style multiplier might be inappropriate against the background of policies taken to absorb consumption.<sup>31</sup>

Fremdling and Staeglin (2020, 2015) claim that their findings support Abelshauser (1999), Cohn (1992) and Overy (1975, 1996) in raising doubts that public work creation had a rather modest impact on the recovery. This paper bridges between this view and the position that the impact of fiscal policy was rather small. While the RfAA accounted for just under 20 per cent in total work creation outlays it employed more than 70 per cent in emergency relief workers in the peak of the fiscals 1933/34 and 1934/35. Creating cheap labour to an extremely large extent through altered utilisation of unemployment benefits by the RfAA was key to quick successes on the labour market and at high social costs.

## 2.8 Conclusion

This paper estimates the employment impacts of fiscal spending on public relief works using sub-national data from the RfAA during the German economic recovery in the mid-thirties. Employing a Shift-share instrument Panel data IV results indicate a positive and statistically significant relationship between RfAA spending and total employment. The baseline specification suggests that 10,000 RM spent additionally increased employment by 14.173 jobs for one year over the sample 1933-37. In turn, this implies costs for one additive job for one year amounted

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<sup>31</sup>The limitations and strengths of the Input-Output Analysis in context of the demand managing measures taken by the NS-regime are discussed in Fremdling and Staeglin (2020, pp. 441-442). The authors emphasize that their chosen methodology reveals inter-sectoral linkages and in consequence indirect effects of public work creation outlays on particular sectors.

to about 706 RM. Abstracting from differences between the local and the national multipliers estimates imply that RfAA spending created 250,000 jobs in 1933/34 the first year of a large public work creation program while increasing further to 300,000 jobs in 1934/35. The relative importance of RfAA spending diminishes over the years 1935 to 1937. The job multiplier translates into an output multiplier of 4.1 using the production function approach proposed in Chodorow-Reich (2019). Despite the very different methodology employed results compare well with studies using Input-Output Analysis to calculate employment multipliers if one accounts for the fact that the data employed is complementary to the one used in Fremdling and Staeglin (2015) and Yang and Cho (2015). Same applies for output multipliers derived from time series analysis as in Ritschl (2002b, 2013) if you account for the limited role of RfAA spending within public work creation outlays.

It must be noted that the stimulating effects of fiscal spending in this paper refer to unique economic and political circumstances. There are two possible reasons, why the RfAA spending effects differ from estimates on similar countercyclical schemes during the Great Recession. First, the public work creation programs financed through the RfAA fostered labour-intensive emergency relief works devoted to the improvement of public infrastructure. While it is undisputed that government expenditures on consumption and investment have different multiplier effects this paper sheds light on a special form of public employment - the public relief works in response to an economic downturn. Second, unlike modern deficit-financed stimulus packages the RfAA outlays are financed in the way of regional transfers from one state to another. Previous work shows that regional transfers only slightly increase the multiplier in comparison to deficit-financed ones.

In the light of the literature on the German recovery from the Great Depression this paper suggests that the Nazi administration was in regard of the RfAA measures successful in creating employment through cheap public employment in the way of paying out unemployment benefits under a work requirement. The results suggest that up to 300,000 jobs in 1934/35 could have been created by those measures but the employment effects of RfAA outlays seem to be largely limited to direct employment effects within the projects realised in the course

of public relief works. Effects on private employment seem to be rather small which is in line with the results on the output- and consumption-multiplier on the government deficit in Ritschl (2002b).



## Chapter 3

# A Narrative Record for Interwar Tax changes in Germany, 1925-1939

### 3.1 Introduction

This paper provides an extensive narrative record of changes to taxation in Germany for the period 1925 to 1939. The account recollects information on the timing of announcement and implementation, size and reasoning of tax legislation amendments and builds the foundation to assess the macroeconomic effects of the respective. While there is yet no paper systematically analysing the motives of German tax policy in the interwar this paper bridges between the historical science and economics in the way that it makes use of contemporary sources in order to address the identification problem in macroeconomics.

Primary aim of the conducted exercise is the isolation of exogenous tax changes by identifying those legislative amendments not in response to present or future economic conditions but for long-run economic, fiscal, social or ideological reasons. The idea of creating narrative shock series in application to tax policy in order to quantify the effect of tax changes goes back to Romer and Romer (2010) while in respect to the classification of motivations this paper draws on the more detailed scheme of Cloyne (2013). In order to create the data set in a first step all tax changes were identified by contemporary sources as official publications along with their announcement and implementation dates. In a second step, these tax changes were assigned their respective projected revenue impact. Those figures were either drawn from the annual budgets, the budget speeches of the Minister of Finance, minutes of the Reichstag or the cabinet or the bills introduced to the Reichstag. In the final step, in use of the just listed sources, each tax change was categorized according to its motivation.

The dataset comprises a total of 191 quantifiable tax changes across a total of 15 fiscal years from 1924/25 to 1938/39, of which 49 are classified as exogenous. Despite the political upheavals, the German case is well suited for an application of the narrative record because, although the decision-making processes changed, the tax legislation bills were equally well documented throughout the period. Most importantly, this means that the archival material contains both high-quality projections of revenue changes and detailed discussions of the motivations for the tax changes. The narrative record of German tax changes between 1925 and 1939, as central contribution of this paper, will be presented first as a tabulated

version before each budget along with its historical context and general budgetary considerations are fold out chronologically. Each individual tax change is also presented within the respective fiscal year based on its effects and motivations. From those changes, a new measure of tax shocks in the German Reich is derived.

The idea that narrative methods can identify an exogenous series based on the motivation and magnitude of changes in a variable from historical documents was first applied to monetary policy (Friedman and Schwartz, 1963; Romer and Romer, 1989, 2004) and oil prices (Hamilton, 1985; Hoover and Perez, 1994). The narrative method was adopted by Ramey and Shapiro (1998) and Ramey (2011b) in order to evaluate the effect of government spending by creating a defense news series responding to political rather than economic considerations. The effect of taxation was evaluated through a narrative series of taxes which traced exogenous motivated changes for the first time by Romer and Romer (2010). Extensive narrative accounts for countries' post-WWII tax policies based on legislative documents include the United States (Romer and Romer, 2009), the United Kingdom (Cloyne, 2012), Germany (Uhl, 2013), and Canada (Guerreiro Lopes, 2016, Chapter 3). Abridged tabular versions of narrative records exist for Portugal (Pereira and Wemans, 2015, Appendix), the Netherlands (Geenen, 2017), Japan (Kato et al., 2018b), Spain (Gil et al., 2019, Appendix), Canada again (Hussain and Liu, 2019, 2024) and Croatia (Deskar-Škrbić et al., 2021, Appendix 1). The sample for the interwar years was until now restricted to the United States (Romer and Romer, 2012) and the United Kingdom (Cloyne et al., 2021).

The remainder of the paper is organized in the following way: the general framework of tax policy of interwar Germany, the fiscal constitution and the changing legislative procedures are presented in Section 3.2. Section 3.3 discusses the data sources to identify tax changes, their timing and projected magnitude, as well as their reasoning. The scheme for classifying these motivations according to Romer and Romer (2010) is presented in Section 3.4, while the final Section 3.5 provides the full narrative account of tax changes by budget year.

## 3.2 Implementation of tax policy in Germany

### 3.2.1 Financial Constitution

With the Weimar Reich Constitution of 11 August 1919, the Reich, which had previously financed itself through matriculation contributions from the federal states and through customs duties, received legislative sovereignty that took precedence over the Länder.<sup>1</sup> This also applied to the field of taxation, in which the sovereignty over revenue and the competence to issue guidelines for the Länder, which was subject to certain conditions, also belonged to the central state.<sup>2</sup> Only the administrative sovereignty over the revenue from taxes and charges initially remained with the federal states according to the Weimar Constitution.<sup>3</sup> Conversely, this meant for the Länder that they were now dependent on transfers by the Reich, which “had to take into account the preservation of the viability of the Länder”, from the taxes they had previously collected themselves. Tax sovereignty remained with the states only in the event that the Reich did not exercise its right to enact a levy scheme itself (Voss, 1995, pp. 16-17; Schauer, 2003, pp. 27-29).

“From the reshaping of the constitution, however, there also had to result a shift with regard to taxation power”<sup>4</sup> and so the Unitarian-minded Reich Minister of Finance, Matthias Erzberger, carried out a fiscal and tax reform named after him in 1919 and 1920. It comprised a total of 16 laws, the first of which initially served to establish a central tax authority subordinate to the Reich Ministry of Finance.<sup>5</sup> With the creation of a separate Reich Finance Administration, fiscal administrative sovereignty was now also transferred to the Reich. With the subsequent Reich fiscal code, the *Reichsabgabenordnung (RAO)*,<sup>6</sup> jurisdiction was also transferred to the Reich Fiscal Court. With these steps, by the end of 1919 the Reich had gained legislative, revenue, administrative and judicial competence in

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<sup>1</sup>Article 12(2) RV.

<sup>2</sup>Article 8(1) and 11 RV.

<sup>3</sup>Article 14 RV.

<sup>4</sup>NatVers, Bd. 331, p. 3838.

<sup>5</sup>Gesetz über die Reichsfinanzverwaltung vom 10. September 1919; RGBl. 1919 I, p. 1591.

<sup>6</sup>Reichsabgabenordnung vom 13. Dezember 1919; RGBl. 1919 I, p. 1993.

the tax system and thus fiscal sovereignty over the federal states (Voss, 1995, pp. 16-17; Schauer, 2003, pp. 27-29, 61-65).

The Reich made extensive use of these newly won constitutional and administrative taxation options. Between September 1919 and March 1920, the inheritance tax,<sup>7</sup> the land transfer tax,<sup>8</sup> the ignition goods tax,<sup>9</sup> the playing card tax<sup>10</sup> the tobacco tax<sup>11</sup> the turnover tax,<sup>12</sup> the capital gains tax,<sup>13</sup> the income tax,<sup>14</sup> and the corporation tax<sup>15</sup> were to be newly regulated, standardised or newly introduced by the Reich. These reforms were flanked by budgetary motivated short-term measures to increase revenue such as a temporary tax amnesty,<sup>16</sup> temporary or one-time levies on assets,<sup>17</sup> capital gains,<sup>18</sup> and additional income or profits,<sup>19</sup> as well as measures against tax evasion and tax avoidance.<sup>20</sup>

While indirect taxes and customs duties already accrued to the Reich before World War I, the central government's expansion to direct taxes such as income and corporation tax deprived the Länder of their financial basis and made a financial equalisation between the Reich and the federal states necessary. The State Tax Law (Landessteuergesetz) of March 30th 1920<sup>21</sup> allocated fixed quotas of certain taxes to the Länder. This state share of the so-called Reich transfer taxes was in turn determined among the states on the basis of an allocation formula that took into account the amount of tax revenue in the Reich, the total share of the states, the sum of the accounting shares of all municipalities and

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<sup>7</sup>Erbschaftsteuergesetz vom 10. September 1919; RGBl. 1919 I, p. 1543.

<sup>8</sup>Grunderwerbsteuergesetz vom 12. September 1919; RGBl. 1919 I, p. 1617.

<sup>9</sup>Zündwarensteuergesetz vom 10. September 1919; RGBl. 1919 I, p. 1629.

<sup>10</sup>Spielkartensteuergesetz vom 10. September 1919; RGBl. 1919 I, p. 1643.

<sup>11</sup>Tabaksteuergesetz vom 12. September 1919; RGBl. 1919 I, p. 1667.

<sup>12</sup>Umsatzsteuergesetz vom 24. Dezember 1919; RGBl. 1919 I, p. 2157.

<sup>13</sup>Kapitalertragsteuergesetz vom 29. März 1920; RGBl. 1920 I, p. 345.

<sup>14</sup>Einkommensteuergesetz vom 29. März 1920; RGBl. 1920 I, p. 359.

<sup>15</sup>Körperschaftsteuergesetz vom 30. März 1920; RGBl. 1920 I, p. 393.

<sup>16</sup>Gesetz über Steuernachsicht vom 3. Januar 1920; RGBl. 1920 I, p. 45.

<sup>17</sup>Gesetz über das Reichsnotopfer vom 31. Dezember 1919; RGBl. 2189 I, p. 2157.

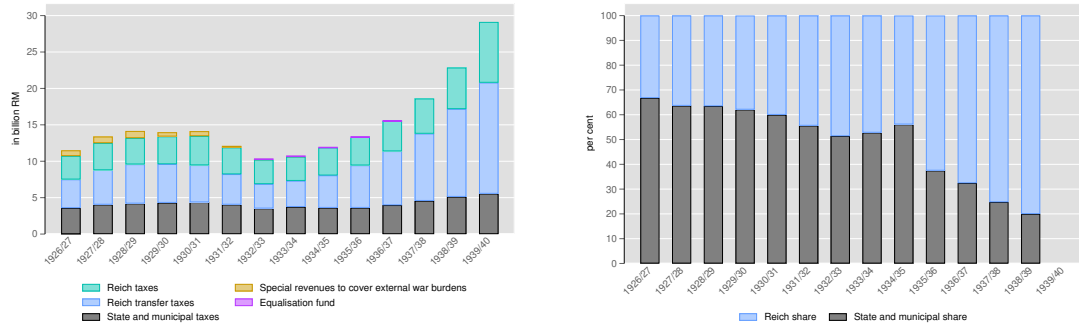
<sup>18</sup>Gesetz über eine außerordentliche Kriegsabgabe vom Vermögenszuwachs vom 10. September 1919; RGBl. 1919 I, p. 1579.

<sup>19</sup>Gesetz über eine außerordentliche Kriegsabgabe für das Rechnungsjahr 1919 vom 10. September 1919; RGBl. 1919 I, p. 1567.

<sup>20</sup>For a detailed description of the individual tax changes within the framework of the Erzberg reform programme, see Menges (1971, pp. 189-198).

<sup>21</sup>Landessteuergesetz vom 30. März 1920; RGBl. 1920 I, p. 402.

Figure 3.1: Tax revenue by public authority



(a) Total tax revenue

(b) Distribution of Reich transfer taxes

*Data source:* Panel 3.1a: For the fiscals 1926/27 to 1934/35 the data is taken from *Konjunkturstatistisches Handbuch 1936* edited by Wagemann, p. 166. For the following years the series *Jahreseinnahmen (einschl. Gemeinden bis zu 5000 Einwohnern)* stems from *Statistisches Jahrbuch für das Deutsche Reich, 1937-1941/42*. Panel 3.1b: The transfers to states and municipalities from taxes collected by the Reich originate from Ritschl (2002b), series A.6.12.

of the state itself. It was in the responsibility of the states to further distribute these funds to the municipalities, which, in addition to the pure tax power of the municipalities, were to consider their material requirements, for example, through welfare burdens. With the regulations of the State Tax Law, apart from the taxes on consumption, which were rather small in scope, the Länder were given the right to levy land and building taxes, a trade tax and a house rent tax, within the framework of which the municipalities could levy surcharges (Statistisches Reichsamt, 1930, pp. 87-93, 470-497).

In the vertical fiscal equalisation between the Reich and the federal states, there was a permanent struggle over the respective allocations of the individual Reich transfer taxes. In 1925, these taxes to be distributed were the income tax, the corporation tax, the turnover tax, the land transfer tax, the motor vehicle tax and the racing betting tax. With the emergency decree of 1 February 1930, the beer tax also became a Reich transfer tax. Between April 1930 and December 1931, the mineral water tax joined the previous temporarily, while during the National Socialist period the slaughter tax became in 1934 a permanent Reich

transfer tax,<sup>22</sup> the document tax in 1936,<sup>23</sup> and the itinerant trade tax in 1938<sup>24</sup>. Figure 3.1a shows the Reich transfer taxes as part of the total tax revenue by territorial authority. The states originally participated in the revenue of these taxes with a fixed quota.<sup>25</sup> While the Länder were still guaranteed a certain amount of revenue until the 1928/29 fiscal year, amounts were deducted for the benefit of the Reich for the first time in 1929/30. This practice continued during the depression years. Under Hitler's rule, the share of the states and municipalities was not drastically reduced until the financial year 1935/36, when thresholds were introduced above which the state share was reduced by two-thirds. Between 1935 and 1938, under the increased financial needs of the central state, the fiscal equalisation system was changed a total of four times in favour of the Reich, while the tasks of the Länder were increasingly transferred to the municipalities or overtaken by the Reich itself. The development of the distribution of the Reich transfer taxes between 1925 and 1939 is shown in Figure 3.1b.

### 3.2.2 Legislative process

In the following, based on the Weimar Constitution, a legislative process for the period of parliamentary democracy of the Weimar Republic is exemplified as it was applied to the passing of tax laws as well as the budget, and the genesis of lawmaking through the presidential cabinets to National Socialist Germany is discussed.

The legislative initiative could come from both the Reich government and the Reichstag. With regard to changes in tax law, however, these mostly came from the Reich government. Thus, corresponding drafts were prepared by the relevant department, the Reich Ministry of Finance, along with explanatory memoranda, and forwarded to the Reich Cabinet for consultation and decision-making.<sup>26</sup> Provided the legislative initiative received the approval of the Cabinet, it was intro-

<sup>22</sup>Schlachtsteuergesetz vom 24. März 1934; RGBl. 1934 I, p. 238.

<sup>23</sup>Urkundensteuergesetz vom 5. Mai 1936; RGBl. 1936 I, p. 407.

<sup>24</sup>Gesetz über die Besteuerung des Wandergewerbes vom 10. Dezember 1937; RGBl. 1937 I, p. 1348.

<sup>25</sup>An overview of the changing proportional participations of the states and municipalities in the receipts of the Reich transfer taxes split up by individual taxes can be found for the 1920s in Overview 34 of Statistisches Reichsamt (1930, p. 89).

<sup>26</sup>Article 57 RV.

duced into the Reichstag with the consent of the Reichsrat, the federal representation of the federal states. In the event that no agreement could be reached between the Reich Government and the Reichsrat, the respective divergent position had to be presented when it was introduced into Parliament.<sup>27</sup> In parliament, the relevant law was normally debated three times. In the first session, sometimes after a presentation of the draft by the Reich Minister of Finance or his State Secretary, it was typically referred to the Committee on tax matters or the Budget Committee. Any questions of detail were discussed in the relevant specialised committees and a possibly deviating version was sent back to the Reichstag. In the second deliberation, these amendments were presented by a rapporteur and possible further motions were introduced. In the third deliberation, the bill was then put to the vote. A simple majority was sufficient to pass an alteration to tax law or the Reich budget.<sup>28</sup>

As no stable majorities seemed possible in the Reichstag after the failure of the Grand Coalition of SPD, DDP, Zentrum, BVP and DVP around Reich Chancellor Hermann Müller on the question of financing unemployment insurance on 27 March 1930, Reich President Paul von Hindenburg appointed Heinrich Brüning as Reich Chancellor of a minority government. He received the support of the Reich President, which the latter had refused his Social Democratic predecessor. On the political plans of his Reich government, Heinrich Brüning declared in his government declaration on 1 April 1930: “It is willing and able to use all constitutional means to this end.”<sup>29</sup> This signifies a caesura in the sense that if the Reichstag did not approve the Brüning cabinet’s legislative projects, they were enacted by the Reich President on the basis of Article 48 of the Reich Constitution as an emergency decree. Although these emergency decrees could be repealed by the Reichstag, conversely the Reich President could dissolve the Reichstag and re-enact the previous legislation. For the first time, a tax amendment became part of an emergency decree in the context of the adoption of the Reich budget in 1930. The original emergency decree of the Reich President of 16 July 1930<sup>30</sup>

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<sup>27</sup>Article 59 RV.

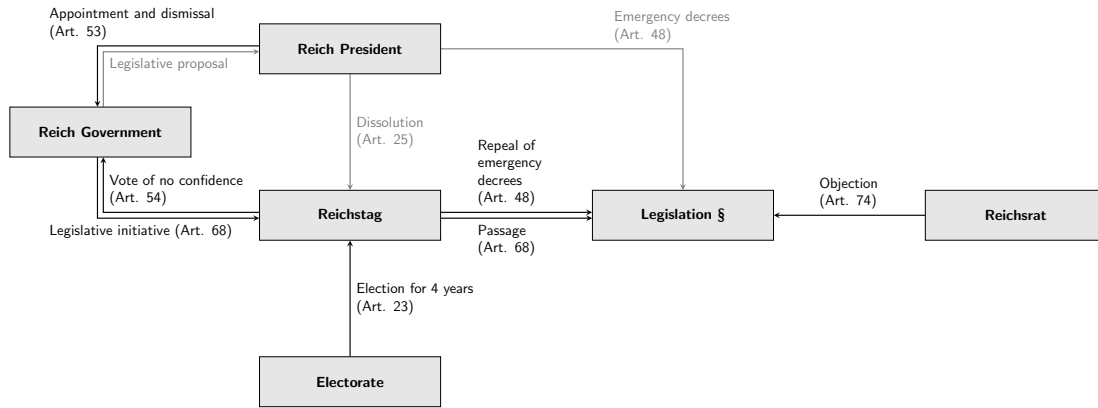
<sup>28</sup>Article 32 RV.

<sup>29</sup>RT-Bd. 427, p. 4730.

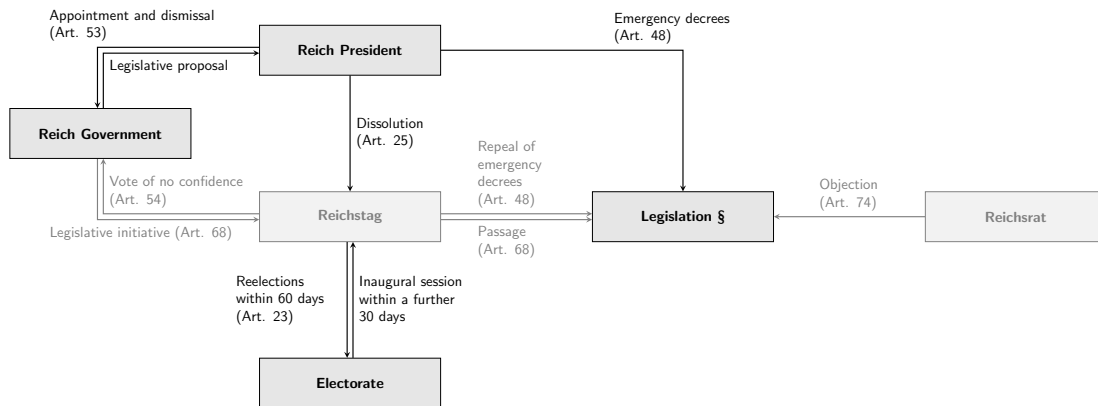
<sup>30</sup>RGBl. 1930 I, p. 207.



Figure 3.2: Legislative process in the Weimar Republic



(a) during parliamentary democracy, 1919-1930



(b) during the presidential cabinets, 1930-1933

was repealed by the Reichstag on 18 July,<sup>31</sup> which in turn was dissolved by the Reich President on the same day<sup>32</sup> and the original decree was reissued with the same wording on 26 July.<sup>33</sup> The two further dissolutions of the Reichstag, on 4 June<sup>34</sup> and 12 September 1932,<sup>35</sup> did not lead to such a situation, as the Reich

<sup>31</sup>RGBL. 1930 I, p. 223.

<sup>32</sup>RGBL. 1930 I, p. 299.

<sup>33</sup>RGBL. 1930 I, p. 311.

<sup>34</sup>RGBL. 1932 I, p. 255.

<sup>35</sup>RGBL. 1932 I, p. 441.

President in each case preempted the Reichstag with its dissolution. A dissolution gave up to 60 days until the new elections and up to 30 days until the next meeting of the newly formed Reichstag to govern in the meantime by emergency decrees.<sup>36</sup> In this way, the presidential cabinets in office between 1930 and 1932 left the legislative competence of the Reichstag de jure untouched, but de facto the executive and legislative competence lay with the Reich President and the Reich Chancellor, who was obliged to countersign. The possibilities for legislation within the Weimar Constitution are shown in Figure 3.2. While the usual parliamentary legislative procedure between 1919 and 1930 is depicted in Panel (a), (b) shows the possibilities used between 1930 and 1933 by the presidential cabinets to legislate bypassing parliament.

After the transfer of power to the National Socialists, the Enabling Act,<sup>37</sup> passed by the parliamentary legislative process described above with a necessary two-thirds majority, formed the legal basis from 24 March 1933 for the Reich government to pass laws and exercise the original budgetary right of the Reichstag.<sup>38</sup> The laws could deviate from the Reich Constitution as long as the institutions of the Reich President and the Reichstag remained intrinsically untouched.<sup>39</sup> The enactment and promulgation of laws, originally the responsibility of the Reich President, now became a competence of the Reich Chancellor.<sup>40</sup> The initial time limit of the Enabling Act until 1 April 1937 was extended in 1937 and 1939 respectively, and the newly established legislative procedure, which elevated a cabinet decision to a Reich law, became determinative for tax and budget legislation (Schauer, 2003, pp. 36-39). The new procedure was first applied to a tax law in the *Gesetz über Änderung des Kraftfahrzeugsteuergesetzes* (Law on the Amendment of the Motor Vehicle Tax Law) of 10 April 1933.<sup>41</sup>

In addition to this legislative procedure, the death of Paul von Hindenburg on 2 August 1934 led to the merging of the constitutional powers of the Reich President and the office itself with those of the Reich Chancellor.<sup>42</sup> This created a new form

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<sup>36</sup>Article 25 RV.

<sup>37</sup>RGBL. 1933 I, p. 141.

<sup>38</sup>Article 1 RGBL. 1933 I, p. 141.

<sup>39</sup>Article 2 RGBL. 1933 I, p. 141.

<sup>40</sup>Article 3 RGBL. 1933 I, p. 141.

<sup>41</sup>RGBL. 1933 I, p. 192.

<sup>42</sup>RGBL. 1934 I, p. 747.

of legislative act, the Fuehrer Decree or Ordinance. These themselves had found no application in tax or budget legislation, but were used on 18 October 1936<sup>43</sup> to delegate legislative authority to Hermann Göring, who as Plenipotentiary was now to use it in the interests of rearmament within the framework of the Four-Year Plan (Voss, 1995, pp. 8-9). Göring intervened in tax-related legislation in particular through the Jewish Capital Levy of 12 November 1938.<sup>44</sup> This type of legislation, however, remained a rare exception in the field of levies, albeit one with serious consequences.

### 3.3 Data

As we aim to construct an exogenous tax series the point of departure is a documentation of all discretionary tax changes by the Reich. First, the legislative change itself with a brief description of the nature of the tax change along with its announcement and implementation is documented. Second, the tax change is quantified by the projected revenue impact of the tax change. Third, the reasoning and motivations behind the tax changes are retraced. Finally, those elaborations are used to categorize each tax change. The steps are described in further detail in the following subsections before the classification is conclusively presented in Section 3.4. The resulting narrative record is presented in Section 3.5.

#### 3.3.1 Adopted tax laws

At the edge of the Weimar democracy, tumultuous years of presidential cabinets and the Nazism dictatorship, legislative procedures during the Interwar years alternated. This had consequences for the clarity of tax legislation in the sense that it was neither uniformly adopted nor promulgated. Against the background of the standardisation of tax legislation throughout the Reich as a result of the Erzberger tax reforms, tax law also established itself as a matter of interest to legal scholars. Ottmar Bühler was the first, who established in 1923 a chair for tax law at a German university and who edited the regular issues of the 1926 first published series

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<sup>43</sup>RGBl. 1936 I, p. 773.

<sup>44</sup>RGBl. 1938 I, p. 1579.

*Die gesamten Reichssteuergesetze*, providing the most comprehensive overview of tax changes for the period under consideration. Another contemporary source, besides those on tax law, were official Statistische Reichsamt publications on state revenues from taxes (1929a; 1931; 1939) and treatises on consumption and income taxation (1937), which were preceded by corresponding general introductions on the development of taxation, including records of material tax changes. Also, the semi-official publication *Wochenberichte des Institut für Konjunkturforschung* included such general overviews as well as particular ones with the focus on the legislative changes in tax law in their three issues devoted to listing the measures taken since 1933 by the Nazi regime in order to overcome the Depression years (1935b; 1936b; 1938).

In addition to these sources from the interwar period, there are various publications in the field of the history of tax law that are devoted either to the years of the Weimar Republic or to those of the Third Reich. Braun (1988) deals with tax legislation after the First World War up to the seizure of power by the National Socialists. General overviews of the development between 1933 and 1945 for the latter group are presented by Högemann (1993), Voss (1995) and Schauer (2003). Even though this list is not exhaustive, the aforementioned research serves the purpose of identifying material tax changes best since it is essentially based on the published tax law literature. In addition to taxes, social security contributions are also counted as public charges. In the period under consideration, unemployment insurance is noteworthy due to its new introduction and the numerous changes in contributions and benefits. Glismann and Schrader (2002) in particular elaborate on the material changes to the unemployment insurance system.<sup>45</sup> Other social insurance schemes were subject to only minor changes between 1925 and 1939 and are therefore only marginally considered.

Finally, all tax changes found are verified against the legislation passed. The public announcements in the *Reichsgesetzblatt (RGBl.)* and *Reichssteuerblatt (RStBl.)* serve this purpose. The date of announcement and the date of implementation of each law is extracted from the aforementioned sources on the basis of

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<sup>45</sup>For a chronology of legal changes to welfare for the unemployed and unemployment insurance in the Weimar Republic, see also Bender (1991, Appendix, pp. 167-169). A more general overview of socio-political legislative changes between 1839 and 1939 can be found in Syrup (1957, pp. 543-583).

the final texts of the laws published. The announcement date corresponds to the date of adoption of the law by the legislative body and not to the date on which the corresponding issue of the official publication appears. The introduction of a law and thus the implementation is mostly regulated in the final section of a tax law or a separate implementing regulation. The implementation date refers to the first day on which a law applies, for example, the first day from which an altered tax rate determines the new amount of tax to be charged. Apart from the announcement and implementation, a possible expiry is documented. This makes permanent and transitory tax changes distinguishable.

### 3.3.2 Tax revenue changes

In order to quantify the impact of the identified tax changes, I collect forecasted revenue changes expected from a change in taxation. These data are found in three different types of government records: the Reich budgets, draft laws as well as Reichstag and cabinet minutes. These source types can be found in the published files of the Reich Chancellery and the Reichstag minutes as well as the unpublished documents of the German Federal Archives. In the following, the types of sources and where they were revealed will be discussed.

In the Reich budget, tax revenues are projected and recorded in Section XVII of the General Financial Administration. The General Financial Administration is the German tax authority responsible for collecting and managing most taxes. For each tax, the respective budget entry indicates the tax revenue of the previous years, the estimates for the previous year as well as for the planning year together with the resulting change in the estimates between the budget years. Each tax estimate is accompanied by corresponding explanations, which address the economic and fiscal reasons that influence the projected revenue. For illustrative purposes, Figure 3.3 shows an extract from the 1939 Reich budget. The double page shows on the left-hand side in the right column the tax revenue expected in the subsequent financial year, while on the right-hand side the corresponding explanations are given. An example of an assignment of revenue changes to a tax change is shown here in Kap. 1 Tit. 19.: “Fire protection tax. For the financial year 1939, an estimate of 22 million RM is made. The estimate corresponds to

Figure 3.3: Source sample from Reich Budget 1939

XVII. Einnahme Kap. 1 Zif. 9 bis 20		Die Einnahme hat betragen			Jahr des Rechnungs-jahrs 1938 (bis angeht Gegen in des Rechnungs- jahrs)	Beitrag für das Rechnungs-jahr 1939
Rechnungsjahr	Rechnungsjahr	Rechnungsjahr	Rechnungsjahr	Rechnungsjahr	Rechnungsjahr	Rechnungsjahr
1	2	3	4	5	6	7
9	Kapitalertragssteuer:					
a)	Wertschöpfungssteuer	30 757 147	27 381 398	40 558 322	27 000 000	40 500 000
b)	Wertschöpfungssteuer	5 440 969	3 869 800	2 447 375	2 000 000	7 000 000
c)	Verfahrensmittelsteuer	17 124 183	16 201 605	14 838 266	16 000 000	16 000 000
10	Urkundensteuer	30 685 713 (aufgeplant)	52 646 726	55 896 968	52 000 000	70 000 000
11	Staatsanleihesteuer	135 314 598	136 403 312	140 783 057	141 000 000	118 000 000
12	Verfahrensmittelsteuer	62 759 433	67 892 593	73 264 817	71 000 000	78 000 000
13	Steuern und Beiträge:					
a)	Kommunalsteuer	29 863 652	33 565 296	35 610 090	34 000 000	27 000 000
b)	Verfahrensmittelsteuer	34 848 747	38 031 728	39 856 891	41 000 000	43 000 000
14	Wertschöpfungssteuer	43 732 093	58 380 804	70 081 941	62 000 000	75 000 000
15	Verfahrensmittelsteuer:					
a)	Verfahrensmittelsteuer	106 682 934	129 513 567	154 194 934	160 000 000	172 500 000
b)	Verfahrensmittelsteuer	135 677 039	162 396 999	188 714 178	179 000 000	200 500 000
16	Steuer zum Wertberichtigungs- gleich bei Schuldverschreibungen (Einkommensteuer)	—	—	—	—	—
17	Reichssteuer	69 911 294	81 353 855	842 621 379	170 000 000	245 000 000
18	Bankertragssteuer	—	3 244 034 (aufgeplant)	4 812 643	7 000 000	4 500 000
19	Reichssteuer	—	—	1 455 208 (aufgeplant)	—	22 000 000
20	Verfahrensmittelsteuer	—	—	—	—	340 000 000

Source: "Einzelplan XVII - Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1939" in "Reichshaushaltsplan für das Rechnungsjahr 1939" found in the library of the BFH, B002/QA 76700. Full overview of all sources for the budgets of the tax authorities are displayed in Table B.2.

the revenue calculation made at the enactment of the law." Since the said fire protection tax was introduced as a Reichs tax on 1 February 1939, with retroactive effect from 1 January, this corresponds to an additional tax revenue in the amount of 22 million RM as a result of a discretionary tax change.

The drafts of the Reich budgets up to and including 1931 can be found for the period of the Weimar Republic in the printed matters accompanying the Reichstag minutes. An overview of the sources can be found in Table B.1, Panel A. The adopted Reich budgets were published in the various issues of *Statistisches Jahrbuch für das Deutsche Reich* up to the financial year 1934/35, with publication of the revenue estimates for taxes ending a year earlier. Panel B of Table B.1

presents the related sources. Particularly important with regard to the revenue planning of the Reich is the General Financial Administration, which is found in Section XVII of the Reich Budget. While these plans are freely available up to the budget year 1933/34, from 1934 onwards they were subject to the note 'For internal official use only'. Table B.2 compiles the sources of the Reich's tax planning between 1924 and 1939 based on Section XVII without gaps. Both the drafts of Section XVII from Table B.1, Panel A, and the final versions in Table B.2 mostly have some kind of introduction that discusses the expected revenue changes in general terms, distinguishing between those that are caused by a tax change and those that follow a general economic development.

In the legislative process, estimates of the quantitative effects of a tax change may already have been made. These are often found in the explanatory memoranda that accompany the bills when they are introduced to the cabinet or the Reichstag, mostly by the Reich Minister of Finance. The advantage of these estimates is their high quality, since it is usually explained how the forecasted revenue changes are arrived at, under which assumptions they arise, as well as their clear assignability to the tax changes in question. An example of an estimate of the change in revenue as a result of a tax change provides the reduction of the sugar tax from 21 to 10.50 RM per quintal on 15 July 1927. The draft law of 2 July 1927 associated with this legislative change, together with an extract from its justification, is shown in Figure 3.4. The explanatory memorandum discusses the extent to which the tax reduction will be passed on to the end consumer and the impact of a simultaneous increase in the sugar duty: "The reduction in the sugar tax from 21 to 10.50 RM will, however, not be fully reflected in the retail price if, as is proposed in the draft law on the increase of the sugar duty submitted at the same time, the duty is increased from 10 to 15 for the quintal. Nevertheless, since the tax reduction amounts to  $5\frac{1}{4}$  Rpf. for the pound, while the increase in the duty, which from experience does not have a full effect on the price, will in all probability result in an increase in the price by no more than  $\frac{2}{3}$  of the amount of the duty, hence by about 1.7, Rpf. on the pound, a fall in the retail price by about  $3\frac{1}{2}$  Rpf. and in connection with this an increase in domestic consumption must be expected." Taking into account an increased demand due to the lower retail price, we now arrive at the expected change in revenue from the sugar tax:

“Assuming that this increase will be about 10 per cent, domestic sales of about 14.3 million quintals can be expected. At a tax rate of 10.50 RM, this would result in a revenue of about 150 million RM, i.e. a shortfall of 125 million RM compared to the estimated revenue of 275 million RM for the financial year 1927.”

Such bills, together with detailed explanatory notes, can be found in the holdings of the Reich Chancellery kept by the Federal Archives for the entire period under investigation. The edited volumes of the *Akten der Reichskanzlei (AdRk)*<sup>46</sup> for both the years of the Weimar Republic and Hitler’s government are helpful in accessing the extensive legislative material and its respective prehistory and further progress. Furthermore the Reich Chancellery’s holdings contain proposed legislation sorted chronologically by tax type, along with further submissions by for instance advocacy groups, excerpts from the cabinet minutes and any implementing ordinances. An overview of the Federal Archives’ file material of particular interest for tax legislation can be found in Table B.5 of Appendix B.5. In addition, if the law was introduced into the Reichstag, such draft laws with corresponding explanations exist as printed matter in the appendices to the Reichstag minutes for the period of parliamentary democracy of the Weimar Republic. The draft in Figure 3.4 is an example of this, whereby the structure of such draft laws after 1933 does not differ from those of the Weimar Republic. They usually contain a description of the content of the proposed legislation, a reasoning and possible quantitative effects. In both periods, however, there are also measures whose quantitative effect is not attempted to ascertain.

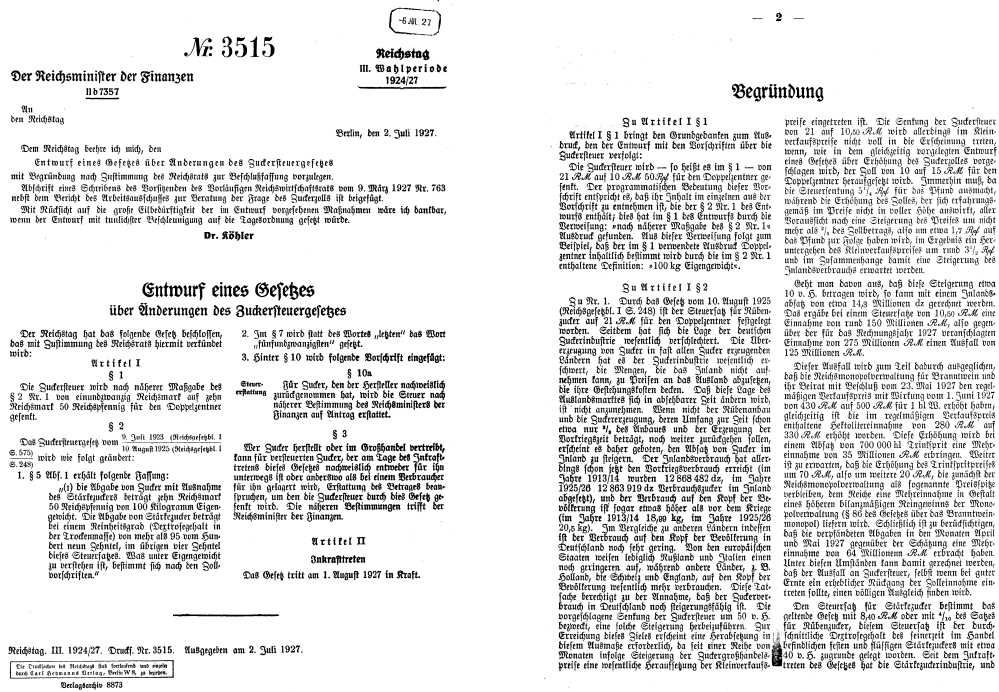
The third type of source for the forecast change in revenues are the actual cabinet and Reichstag minutes. In addition to these verbatim, narrative or resolution minutes of meetings, they also include other materials such as file or conversation notes, memoranda and statements by involved public bodies, excerpts from the above-mentioned minutes and similar file material. Exemplary for such a file note of the Reich Chancellery is the one on the Ordinance on Customs Amendments and Mineral Oil Tax of 24 November 1936 in Figure 3.5. The intention of this decree is to increase the customs duties for benzine and benzol by 4 RM. “The increase in the two customs duties is expected to generate a customs revenue of 113 million RM per year. This will be used to finance the construction of the

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<sup>46</sup>Files of the Reich Chancellery.



Figure 3.4: Source sample from Reichstag Minutes of Proceedings, Annexes



Source: RT-Bd. 416, Drucks. Nr. 3515 “Entwurf eines Gesetzes über Änderungen des Zuckersteuergesetzes” in “Verhandlungen des Reichstags, III. Wahlperiode 1924, Band 416, Anlagen zu den Stenographischen Berichten” from BSB, 4 J.publ.g. 1142 y,A-416, Bildnr.797/798, urn:nbn:de:bvb:12-bsb00000100-0.

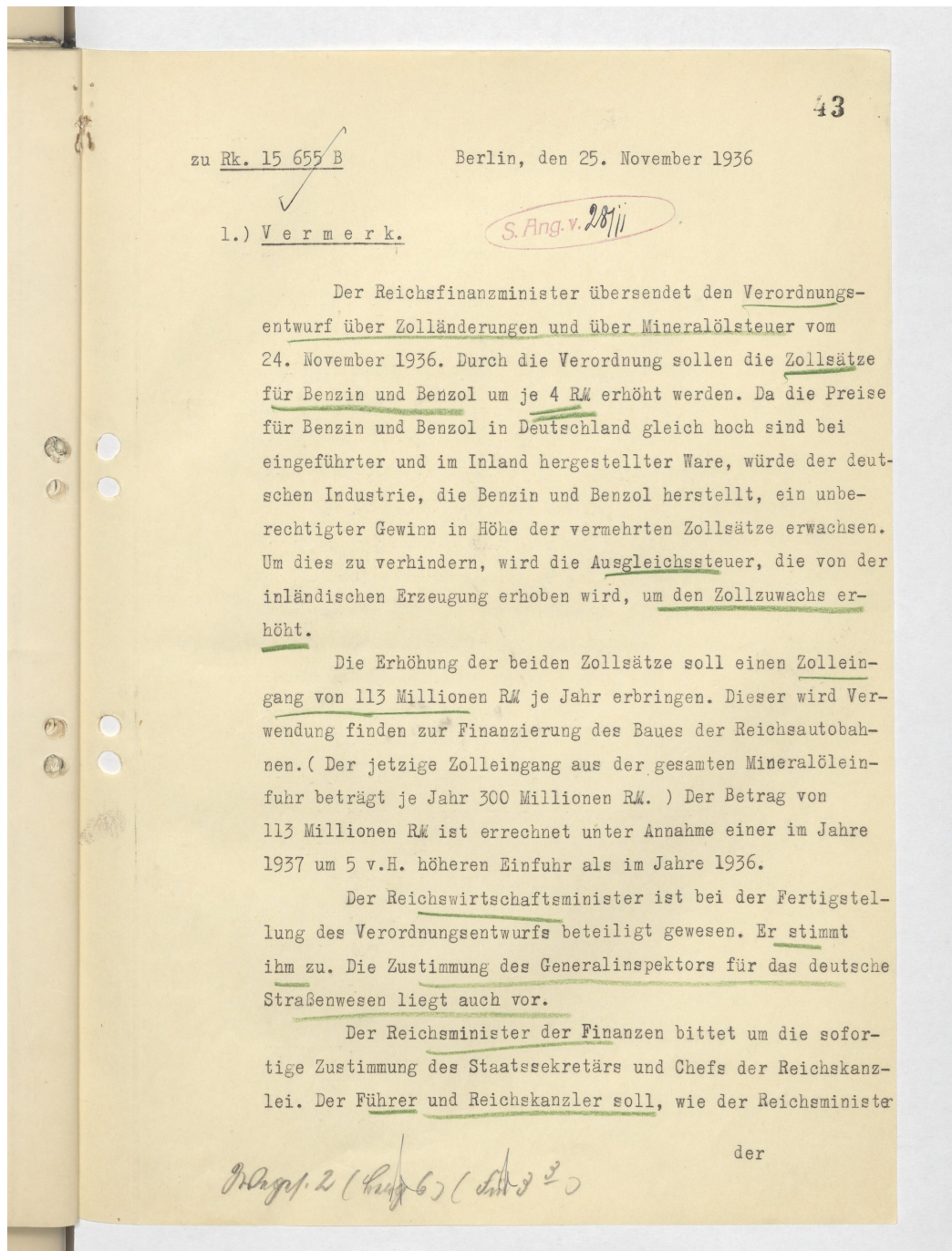
Reichsautobahnen. (...) The amount of 113 million RM is calculated on the assumption that imports in 1937 will be 5 per cent higher than in 1936.” For the example in Figure 3.5, this implies that Article 1 of the Ordinance, the changes in customs duties, is assigned an expected change in tax revenue of 113 million RM.

The minutes of the plenary sessions of the Reichstag for the four legislative periods between 1924 and 1932 can be found in volumes 384 to 456 of the *Verhandlungen des Reichstags*<sup>47</sup> as stenographic reports. During the period of parliamentary democracy, changes in the law are passed in parliament and such material on corresponding changes in tax legislation can be found in its records. The same

<sup>47</sup>Proceedings of the Reichstag.

applies to the period of the presidential cabinets, since later emergency decrees had mostly been introduced in parliament beforehand, but were not passed by it. After 1933, on the other hand, the Reichstag no longer had a legislative function and is therefore not of interest as a source on possible tax changes. In contrast, cabinet meetings were held regularly until 5 February 1938. The associated minutes can be found in the Federal Archives under the signatures R 43-I/1398 to 1477. The edited volumes of the files of the Reich Chancellery are helpful in indexing them. More detailed explanations are just as often given at ministerial or chiefs' meetings in order to shorten the actual cabinet meetings. Due to the fact that after 1933 there were gradually fewer cabinet meetings, an increasing number of laws, including those concerning tax legislation, were passed by circular resolution. These can be found together with other file material such as file and discussion notes in the file material already described in Table B.5 of Appendix B.5.

Figure 3.5: Source sample from Bundesarchiv



Source: BA R 43-II/505, Blatt 43. Full overview of all sources employed from the Bundesarchiv are displayed in Table B.5 of Appendix B.5.

### 3.3.3 Motivations

In general, all tax changes are classified individually according to their respective reasoning. The considerations of a law are best revealed by the materials described in Section 3.3.2. These are in particular the explanatory notes and memoranda to the bills, as well as cabinet and Reichstag minutes. In addition, contemporary publications or printed speeches by Reich Finance Minister Graf Schwerin von Krosigk and State Secretary Fritz Reinhardt had been proven helpful for the year 1933 to 1939 in assessing the underlying motivations of a tax change. An example of this is Fritz Reinhardt's publication on the tax reforms of October 1934, "Die neuen Reichssteuergesetze" (1934c), which is largely identical in wording to the explanatory memoranda of the draft laws prepared before their adoption in BA R 43-II/787. The individual references to the motivations, along with their classification according to Section 3.4, will be made explicit in the full narrative record of Section 3.5.

To illustrate the example of a motivation, we will again refer to the sugar tax amendment of 2 July 1927 in Figure 3.4. The explanatory memorandum states: "Compared to other countries, however, the per capita consumption in Germany is still very low. Of the European countries, only Russia and Italy have even lower consumption, while other countries, e.g. Holland, Switzerland and England, consume considerably more per capita. This fact justifies the assumption that sugar consumption in Germany can still be increased. The proposed reduction of the sugar tax by 50 per cent is intended to bring about such an increase." Accordingly, the tax change is aimed at increasing the demand for sugar. Analogously, the note on the use of the additional revenue from the tariff increase of 24 November 1936 states in Figure 3.5: "This will be used to finance the construction of the Reichsautobahnen." From this statement it can be deduced that the measure serves to raise funds for the construction of the highways. How to categorise those motivations according to the idea of narrative identification of Romer and Romer (2010) will be discussed in Section 3.4.

As a robustness check, all tax changes are classified according to the motivation that shapes the respective budget. For the period of the Weimar Republic, those intentions can be derived from opening speeches of the budget debates held by the Reich Minister of Finance in the Reichstag. A list of these budget speeches

can be found in Table B.4, Appendix B.4. Reich Finance Ministers did not always deliver such speeches due to the ongoing formation of a cabinet or reshuffles. In this case, the government declarations of the respective Reich Chancellors can also be drawn upon. An example of such a speech is Hans Luther's government declaration on 19 January 1925, who was at the same time the predecessor and successor of the actually incumbent Reich Finance Minister Otto von Schlieben. Table B.3 in Appendix B.3 lists corresponding government declarations. In order to reveal the underlying intentions of the budget years 1933 to 1938, recourse is made to the minutes of cabinet meetings and supplementary materials in the context of the budget preparation. In particular, the *Akten der Reichskanzlei* provide an overview of the crucial decisions in the budget preparations.

### 3.4 Classification of motivations

The most important distinguishing criterion in the classification of tax changes is whether a measure is intended as a response to current or future economic developments, referred to as *endogenous* (N), or whether it is taken independently of short-term macroeconomic fluctuations, designated as *exogenous* (X). Within these two broad categories, there are subcategories that are less intended to be orthogonal to each other, but rather reflect qualitative classifications. These breakdowns of the exogenous and endogenous classifications provide insights into the motivation for an tax amendment. The narrative identification scheme follows Cloyne (2013) and is introduced below. Table 3.1 illustrates the categorisation along with brief explanations and examples from the period under review.

Endogenous tax changes, which are those taken in response to macroeconomic shocks, are broken down into four categories. Measures are referred to as *demand management* (DM) if they were intended to target aggregate demand. Those include tax changes that were taken to stimulate or reduce either consumption or investment, or both. An example is the tax exemption for motor vehicles in 1933, which was meant to increase demand for automobiles. The second sub-category of endogenous tax changes is formed by those measures that seek to stimulate production through tax relief in response to overall or sectoral economic fluctuations. Such supply-side tax breaks are labelled *supply stimulus* (SS). The abolition of the

tax on sparkling wine on November 15th, 1933, which was supposed to increase production, is an example. Tax changes that serve to cover a current budget deficit constitute the third sub-category and are termed *deficit reduction* (DR) measures. In the winter of 1929, for example, the Müller government, faced with a combination of a lack of tax revenue and rising cash deficits, tightens the tax screw and substantially increases the tobacco tax in order to plug the budget gap. The last group consists of those tax measures that are tied to specific spending commitments. Changes that serve to fund certain expenditures are referred to as *spending-driven* (SD). Typically in the interwar period, the motor vehicle tax is such an earmarked tax, the revenue from which is used for road maintenance and, conversely, the need determines the level of the tax.

Exogenous tax changes are those that are not taken due to recent economic or fiscal developments. They are subdivided into four categories. First, *long-run performance* (LR) tax measures were those targeting long-term economic growth through, for example, improved competitiveness, efficiency or productivity. An example is the re-establishment of a coherent tax system with the tax reform of August 1925, which aimed to create the regulatory framework for a positive long-term economic development. The motivation for tax changes of the second sub-category follows ideological or social objectives (IL). For example, there are a several number of income tax changes that relieve the lower income brackets or households with children for those reasons. The *external* (ET) tax changes as the third sub-category are amendments imposed by national or international bodies. These changes can occur, for example, due to court rulings or, as in the specific case at hand, due to alterations in the war reparations schemes of and between the Dawes or Young Plan. Fourth, the subcategory of *deficit consolidation* (DC) measures represents all those changes that have been taken due to fiscal soundness of the economy or long-term debt sustainability. The category is used to characterise policy changes that are intended to address inherited fiscal distortions for long-run considerations or political preferences.

Table 3.1: Categories of tax changes

Group	Sub-category	Explanation and examples
<b>Endogenous (N)</b>	Demand management (DM)	<ul style="list-style-type: none"> <li>• Measures to control aggregate demand.</li> <li>• Measures addressing the disposable income of households.</li> </ul>
	Supply stimulus (SS)	<ul style="list-style-type: none"> <li>• Supply-side tax reductions for businesses during a recession to help offset production costs.</li> <li>• Transitory sectoral tax reliefs.</li> <li>• Measures that seek to influence consumer prices through taxation of the production costs.</li> </ul>
	Deficit reduction (DR)	<ul style="list-style-type: none"> <li>• Measures that respond directly to current external or budgetary deficits.</li> </ul>
	Spending-driven (SD)	<ul style="list-style-type: none"> <li>• Taxes or charges levied to finance specific public expenditures.</li> </ul>
<b>Exogenous (X)</b>	Long-run performance (LR)	<ul style="list-style-type: none"> <li>• Measures targeting long-term economic growth in the broadest sense, for example as a result of improved competitiveness, productivity or efficiency.</li> <li>• Tax simplification, clarification, unification of sub-national taxes and deregulation.</li> <li>• Long-term support for companies and sectors (e.g. self-sufficient food production or the production of alternative fuels).</li> </ul>
	Social and ideological objectives (IL)	<ul style="list-style-type: none"> <li>• Measures that follow long-term social or political objectives.</li> <li>• Improvements in the efficiency of tax collection.</li> </ul>
	External (ET)	<ul style="list-style-type: none"> <li>• Charges to raise reparation obligations (e.g. German Industrial Debentures)</li> <li>• Strategic considerations in the choice of customs duty levels in the run-up to negotiations on trade agreements</li> </ul>
	Deficit consolidation (DC)	<ul style="list-style-type: none"> <li>• Measures to reduce the deficit or public debt due to budgetary preferences.</li> <li>• Prospective fiscal consolidations of current measures.</li> </ul>

*Notes:* The classification is based on the seminal work on narrative identification of tax changes by Romer and Romer (2010) and its refinement in terms of classification categories in Cloyne (2013). This overview is particularly based on Cloyne (2012, p. 6) and extended by examples of the case at hand.

### 3.5 Narrative Account of Tax Shocks in Germany, 1925-1939

In the following, the dataset is presented at a glance in Table 3.2 with a list of all relevant tax legislation imposed, their announcement and implementation date, their respective pecuniary impact, as well as their motivation derived from the in Section 3.4 introduced categorization scheme. The classification follows the individual motivation described for each change in tax law.<sup>48</sup> This comprehensive overview is detailed by the following extensive narrative record by presenting archival evidence in a systematic budget-by-budget and tax-by-tax analysis on interwar German tax policy. In addition, the narrative data set is opened up by the attached Glossary by tax type.

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<sup>48</sup>In distinction to this approach, the classification in the following Chapter 4 rather builds on overall fiscal objectives than motivations on individual tax law changes. As significant changes in fiscal priorities are more likely to be reflected in the budget as a whole through the annual or supplementary budgets, this divergent approach will be referred to as a budget-by-budget classification. The broader lines of reasoning are presented in Section 4.3 and are tabulated in Appendix C.17, Table C.3.



Table 3.2: Narrative Tax Changes, amendment-by-amendment classification

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über die Deutsche Reichsbahn-Gesellschaft (Reichsbahngesetz)</b>	vom 30. August 1924	RGBl. 1924 II, p. 272						
<i>Anlage: Satzung der Deutschen Reichsbahn-Gesellschaft - §8 Reparationsschuldverschreibungen - für das 1. Reparationsjahr</i>			X	ET	30.08.1924	01.01.1925		200,00
<i>Anlage: Satzung der Deutschen Reichsbahn-Gesellschaft - §8 Reparationsschuldverschreibungen - für das 2. Reparationsjahr</i>			X	ET	30.08.1924	01.09.1925		395,00
<i>Anlage: Satzung der Deutschen Reichsbahn-Gesellschaft - §8 Reparationsschuldverschreibungen - für das 3. Reparationsjahr</i>			X	ET	30.08.1924	01.09.1926		-45,00
<i>Anlage: Satzung der Deutschen Reichsbahn-Gesellschaft - §8 Reparationsschuldverschreibungen - ab dem 4. Reparationsjahr</i>			X	ET	30.08.1924	01.09.1927		110,00
<b>Verordnung über das Außerkrafttreten der Börsensteuerverordnung</b>	vom 9. Dezember 1924	RGBl. 1924 I, p. 771	X	IL	09.12.1924	01.01.1925		-4,00
<b>Gesetz zur Überleitung der Einkommensteuer und Körperschaftsteuer in das regelmäßige Veranlagungsverfahren (Steuerüberleitungsgesetz)</b>	vom 29. Mai 1925	RGBl. 1925 I, p. 78	X	LR	29.05.1925	01.06.1925		-500,00
<b>Gesetz über die Aufwertung von Hypotheken und anderen Ansprüchen (Aufwertungsgesetz)</b>	vom 16. Juli 1925	RGBl. 1925 I, p. 117	X	IL	16.07.1925	15.07.1925		-20,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über Erhöhung der Bier- und Tabaksteuer</b>	vom 10. August 1925	RGBL. 1925 I, p. 245	N	DR	10.08.1925	01.10.1925		75,00
<b>Körperschaftsteuergesetz</b>	vom 10. August 1925	RGBL. 1925 I, p. 208	X	LR	10.08.1925	01.01.1925		8,00
<b>Gesetz über Vermögen- und Erbschaftsteuer</b>	vom 10. August 1925	RGBL. 1925 I, p. 233						
<i>Artikel I - Vermögensteuer</i>			X	LR	10.08.1925	01.01.1925		24,00
<i>Artikel II - Erbschaftsteuer</i>			X	LR	10.08.1925	01.01.1925		-100,00
<b>Gesetz zur Änderung der Verkehrsteuern und des Verfahrens</b>	vom 10. August 1925	RGBL. 1925 I, p. 241						
<i>Artikel I - Gesellschaftsteuer</i>			X	LR	10.08.1925	01.09.1925		-4,00
<i>Artikel I - Börsenumsatzsteuer</i>			X	LR	10.08.1925	01.09.1925		-54,00
<i>Artikel I - Aufsichtsratssteuer</i>			X	LR	10.08.1925	01.01.1925		-8,00
<i>Artikel I - Wertpapiersteuer</i>			X	LR	10.08.1925	01.09.1925		-2,00
<i>Artikel II - Grunderwerbsteuer</i>			X	LR	10.08.1925	01.09.1925		-10,00
<i>Artikel III - Wechselsteuer</i>			X	LR	10.08.1925	01.09.1925		-15,00
<i>Artikel IV - Allgemeine Umsatzsteuer</i>			X	LR	10.08.1925	01.10.1925		-70,00
<i>Artikel IV - Hersteller und Kleinhandelssteuer</i>			X	LR	10.08.1925	01.10.1925		-10,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz zur Änderung von Verbrauchssteuern</b>	vom 10. August 1925	RGBl. 1925 I, p. 248						
<i>Artikel I - Weinsteuer</i>			N	SD	10.08.1925	01.08.1925		-15,00
<i>Artikel II - Zündwarensteuer</i>			X	LR	10.08.1925	01.10.1925		1,40
<i>Artikel III - Salzsteuer</i>			X	LR	10.08.1925	01.10.1925		8,50
<b>Gesetz über Zolländerungen</b>	vom 17. August 1925	RGBl. 1925 I, p. 261	N	SD	17.08.1925	01.09.1925	31.07.1927	80,00
<b>Gesetz über die Senkung der Lohnsteuer</b>	vom 19. Dezember 1925	RGBl. 1925 I, p. 469	X	IL	19.12.1925	01.01.1926		-237,00
<b>Dritte Durchführungsverordnung zum Aufbringungsgesetze</b>	vom 12. Januar 1926	RGBl. 1926 II, p. 101	X	ET	12.01.1926	01.01.1926		125,00
<b>Gesetz zur Änderung der Verordnung über Erwerbslosenfürsorge</b>	vom 17. Januar 1926	RGBl. 1926 I, p. 89	N	SD	17.01.1926	01.01.1926		28,80
<b>Festsetzung eines einheitlichen Beitrags zur Erwerbslosenfürsorge für das ganze Reichsgebiet</b>	vom 25. Januar 1926	RABl. 1926 p. 29	N	DR	25.01.1926	01.02.1926		192,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über Steuermilderungen zur Erleichterung der Wirtschaftslage</b>	vom 31. März 1926	RGBL. 1926 I, p. 185						
<i>Artikel II - Senkung der Umsatzsteuer</i>			N	SS	31.03.1926	01.04.1926		-276,00
<i>Artikel II - Aufhebung der Hersteller- und Kleinhandelssteuer</i>			N	SS	31.03.1926	01.04.1926		-92,00
<i>Artikel VI - Biersteuer</i>			N	SS	31.03.1926	01.01.1927		100,00
<i>Artikel VII- Weinsteuer</i>			N	SS	31.03.1926	01.04.1926		-55,00
<i>Artikel VIII - Schaumweinsteuer</i>			N	SS	31.03.1926	01.07.1926		4,00
<i>Artikel IX - Salzsteuer</i>			N	SS	31.03.1926	01.04.1926		-15,50
<b>Gesetz zur Änderung des Kraftfahrzeugsteuergesetzes</b>	vom 15. Mai 1926	RGBL. 1926 I, p. 224	N	SD	15.05.1926	15.06.1926		52,00
<b>Verordnung über Zolländerungen</b>	vom 30. Juli 1926	RGBL. 1926 I, p. 428	X	ET	30.07.1926	01.08.1926	31.03.1927	310,00
<b>Verordnung über Vorauszahlungen nach dem Aufbringungsgesetze für das Kalenderjahr 1927 (Vierte Durchführungsverordnung zum Aufbringungsgesetze)</b>	vom 21. Dezember 1926	RGBL. 1926 II, p. 805	X	ET	21.12.1926	01.01.1927		125,00
<b>Gesetz über Änderungen des Zuckersteuergesetzes</b>	vom 15. Juli 1927	RGBL. 1927 I, p. 179	N	DM	15.07.1927	01.08.1927		-125,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung</b>	vom 16. Juli 1927	RGBl. 1927 I, p. 187	X	IL	16.07.1927	01.10.1927		8,40
<b>Verordnung über die Aufbringungssätze für 1926 bis 1928 (Achte Durchführungsverordnung zum Aufbringungsgesetze)</b>	vom 19. Dezember 1927	RGBl. 1928 II, p. 10	X	ET	19.01.1928	01.01.1928		50,00
<b>Kraftfahrzeugsteuergesetz</b>	vom 21. Dezember 1927	RGBl. 1927 I, p. 509	N	SD	21.12.1927	01.04.1928	01.04.1931	30,00
<b>Gesetz zur Änderung des Einkommensteuergesetzes</b>	vom 22. Dezember 1927	RGBl. 1927 I, p. 485	X	IL	22.12.1927	01.01.1928		-210,00
<b>Verordnung über die Einheitsbewertung und Vermögensteuerveranlagung 1928 (Rbew. VSt. VO. 1928)</b>	vom 9. Juni 1928	RGBl. 1928 I, p. 165	N	DR	09.06.1928	01.01.1928		50,00
<b>Zweites Gesetz zur Änderung des Einkommensteuergesetzes</b>	vom 23. Juli 1928	RGBl. 1928 I, p. 290	X	IL	23.07.1928	01.10.1928		-150,00
<b>Verordnung über Beförderungsteuer im Personenverkehre</b>	vom 26. Oktober 1928	RGBl. 1928 I, p. 384	X	ET	26.10.1928	01.10.1928		10,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung über die Aufbringungssätze für das Kalenderjahr 1929. (Elfte Durchführungsverordnung zum Aufbringungsgesetze.)</b>	vom 3. Januar 1929	RGBL. 1929 II, p. 32	X	ET	03.01.1929	01.01.1929		0,00
<b>Verordnung über die Steuerbefreiung der Reichsanleihe 1929</b>	vom 17. Mai 1929	RGBL. 1929 I, p. 95	N	DR	17.05.1929	01.04.1929		-10,00
<b>Gesetz zur Änderung des Gesetzes über das Branntweinmonopol</b>	vom 21. Mai 1929	RGBL. 1929 I, p. 99	N	DR	21.05.1929	01.06.1929		90,00
<b>Gesetz zur Änderung des Einkommensteuer- und Körperschaftsteuergesetzes</b>	vom 29. Juni 1929	RGBL. 1929 I, p. 123	X	IL	29.06.1929	01.01.1930		-40,00
<b>Gesetz über die Feststellung des Reichshaushaltsplans für das Rechnungsjahr 1929</b>	vom 29. Juni 1929	RGBL. 1929 II, p. 444						
<i>§9 - Vermögensteuer</i>			N	DR	29.06.1929	01.01.1929	31.12.1929	40,00
<i>REVERSE: §9 - Vermögensteuer</i>			N	DR	29.06.1929	01.01.1930		-40,00
<b>Gesetz zur Änderung des Wechselsteuergesetzes</b>	vom 29. Juni 1929	RGBL. 1929 I, p. 124	X	LR	29.06.1929	01.08.1929		-2,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz zur Änderung des Gesetzes über Arbeitsvermittlung und Arbeitslosenversicherung</b>	vom 12. Oktober 1929	RGBL. 1929 I, p. 129	N	DR	12.10.1929	01.11.1929		1,00
<b>Gesetz zur Änderung des Tabaksteuergesetzes</b>	vom 22. Dezember 1929	RGBL. 1929 I, p. 234	N	DR	22.12.1929	01.01.1930		220,00
<b>Gesetz über die befristete Erhöhung des Beitrags in der Arbeitslosenversicherung</b>	vom 27. Dezember 1929	RGBL. 1929 I, p. 244	N	DR	27.12.1929	01.01.1930	30.06.1930	140,00
<b>Verordnung über die Jahresleistungen nach dem Aufbringungsgesetze für das Kalenderjahr 1930 (Dreizehnte Durchführungsverordnung zum Aufbringungsgesetze)</b>	vom 9. Januar 1930	RGBL. 1930 II, p. 14	X	ET	09.01.1930	01.01.1930		0,00
<b>Zündwarenmonopolgesetz</b>	vom 29. Januar 1930	RGBL. 1930 I, p. 11						
<i>§14 Berechnung und Verteilung des Gewinns; §37 Abgabe der Groß-Einkaufsgesellschaft Deutscher Konsumvereine und der Großeinkaufs- und Produktions-Aktiengesellschaft Deutscher Konsumvereine (Monopolausgleich); §47 Zündwarensondersteuer</i>			N	SS	29.01.1930	01.06.1930		4,00
<i>§49 - Zündwarensteuer</i>			N	SS	29.01.1930	01.06.1930		-1,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung über Inkraftsetzung der Zollerhöhungen für Kaffee und Tee</b>	vom 20. Februar 1930	RZBl. 1930, p. 61 ff						
<i>Zollerhöhung auf Kaffee und Tee</i>			N	DR	20.02.1930	05.03.1930		47,00
<i>Nachzoll auf Kaffee und Tee</i>			N	DR	20.02.1930	05.03.1930		13,00
<i>REVERSE: Nachzoll auf Kaffee und Tee</i>			N	DR	20.02.1930	01.04.1931		-13,00
<b>Gesetz zur Änderung des Reichsbahngesetzes</b>	vom 13. März 1930	RGBL. 1930 II, p. 359			13.03.1930	01.10.1929		0,00
<b>Gesetz über die Erhebung der Aufbringungsumlage für das Rechnungsjahr 1930</b>	vom 15. April 1930	RGBL. 1930 I, p. 141	N	SS	15.04.1930	01.04.1931		-50,00
<b>Gesetz zur Änderung des Biersteuergesetzes</b>	vom 15. April 1930	RGBL. 1930 I, p. 136	N	DR	15.04.1930	01.05.1930		150,00
<b>Gesetz zur Änderung des Tabak- und Zuckersteuergesetzes</b>	vom 15. April 1930	RGBL. 1930 I, p. 135						
<i>Artikel I - Tabaksteuer</i>			N	DR	15.04.1930	01.05.1930	30.04.1931	16,00
<i>REVERSE: Zahlungsfristenänderung</i>			N	DR	15.04.1930	30.04.1931		-16,00
<i>Artikel II - Zuckersteuer</i>			N	DR	15.04.1930	01.05.1930	30.04.1931	11,00



Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>REVERSE: Zahlungsfristenänderung</i>			N	DR	15.04.1930	30.04.1931		-11,00
<b>Gesetz über Zolländerungen</b>	vom 15. April 1930	RGBL. 1930 I, p. 131						
<i>Artikel 1 - Zolländerung Mineralöle</i>			N	DR	15.04.1930	18.04.1930		65,00
<i>Artikel 3 - Ausgleichsteuer auf Mineralöle (Mineralölsteuer)</i>			N	DR	15.04.1930	01.05.1930		12,00
<i>Artikel 4 - Senkung des Zuschlags zur Kraftfahrzeugsteuer</i>			N	DR	15.04.1930	01.04.1930	31.03.1931	-6,00
<b>Mineralwassersteuergesetz</b>	vom 15. April 1930	RGBL. 1930 I, p. 139	N	DR	15.04.1930	16.05.1930		35,00
<b>Gesetz zur Änderung des Gesetzes über das Branntweinmonopol</b>	vom 15. April 1930	RGBL. 1930 I, p. 138	N	DR	15.04.1930	20.05.1930		0,50
<b>Gesetz zur Änderung des Biersteuergesetzes</b>	vom 15. April 1930	RGBL. 1930 I, p. 137	N	DR	15.04.1930	01.04.1930		137,00
<b>Verordnung des Reichspräsidenten zur Behebung finanzieller, wirtschaftlicher und sozialer Notstände</b>	vom 26. Juli 1930	RGBL. 1930 I, p. 311						
<i>Erster Abschnitt Zweiter Titel - Reichshilfe der Personen des öffentlichen Dienstes</i>			N	DR	26.07.1930	01.09.1930		202,50
<i>Erster Abschnitt Dritter Titel - Zuschlag zur Einkommensteuer für die Einkommen von mehr als achttausend Reichsmark</i>			N	DR	26.07.1930	01.04.1930	31.03.1932	58,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>Erster Abschnitt Vierter Titel - Zuschlag zur Einkommensteuer der Ledigen</i>			N	DR	26.07.1930	01.09.1930	31.03.1932	163,50
<i>Erster Abschnitt Sechster Titel - Tabaksteuer</i>			N	DR	26.07.1930	01.08.1930	31.03.1931	48,00
<i>REVERSE: Zahlungsfristenänderung</i>			N	DR	26.07.1930	01.04.1931		-48,00
<i>Vierter Abschnitt Erster Teil Artikel 2 - Erhöhung des Beitragssatz zur Arbeitslosenversicherung von 3,5% auf 4,5%</i>			N	DR	26.07.1930	01.08.1930		291,00
<b>Verordnung über Änderung des Zollsatzes für Weizen und Spelz</b>	vom 26. September 1930	RGBl. 1930 I, p. 458	X	IL	26.09.1930	28.09.1930		20,00
<b>Verordnung über den Beitrag zur Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung</b>	vom 30. September 1930	RGBl. 1930 I, p. 458	N	DR	30.09.1930	06.10.1930		528,00
<b>Verordnung über die Aufhebung des Steuerabzugs vom Kapitalertrag und der beschränkten Steuerpflicht bei festverzinslichen Wertpapieren</b>	vom 16. Oktober 1930	RGBl. 1930 I, p. 464	N	DM	16.10.1930	03.01.1931		-60,00
<b>Verordnung über Änderung der Zollsätze für Weizen, Spelz und Gerste</b>	vom 25. Oktober 1930	RGBl. 1930 I, p. 480	N	DR	25.10.1930	26.10.1930		26,00
<b>Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen</b>	vom 1. Dezember 1930	RGBl. 1930 I, p. 517						

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>Zweiter Teil Kapitel II §7 - Aufhebung der Reichshilfe der Personen des öffentlichen Dienstes</i>			N	DR	01.12.1930	01.02.1931		-202,50
<i>Zweiter Teil Kapitel III - Tabaksteuer</i>			N	DR	01.12.1930	01.01.1931		167,00
<i>Dritter Teil Kapitel I - Erhöhung der Vermögenssteuerfreigrenze auf 20000 Reichsmark</i>			X	LR	01.12.1930	01.01.1931		-18,00
<i>Dritter Teil Kapitel I - Landwirtschaftliche Einheitsbesteuerung</i>			X	LR	01.12.1930	01.12.1930		-40,00
<i>Dritter Teil Kapitel V - Umsatzsteuerbefreiung von Steuerpflichtigen von nicht mehr als 5000 RM Umsatz jährlich</i>			X	LR	01.12.1930	01.07.1931		-40,00
<i>Dritter Teil Kapitel V - Einschränkung des Zwischenhandelsprivilegs bei der Umsatzsteuer</i>			X	LR	01.12.1930	01.01.1931		16,00
<b>Zweite Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen</b>	vom 5. Juni 1931	RGBl. 1931 I, p. 279						
<i>Zweiter Teil Kapitel II - Zuckersteuer</i>			N	DR	05.06.1931	16.06.1931		146,67
<i>Zweiter Teil Kapitel III - Mineralölzölle</i>			N	DR	05.06.1931	29.05.1931		100,00
<i>Zweiter Teil Kapitel VII - Statistische Abgabe</i>			N	DR	05.06.1931	01.07.1931		3,00
<i>Dritter Teil Kapitel III - Krisensteuer</i>			N	DR	05.06.1931	01.07.1931	30.06.1932	496,80
<i>Vierter Teil Kapitel I - Lohnsteuererstattungen</i>			N	DR	05.06.1931	01.01.1931		80,00
<b>Verordnung über monatliche Voranmeldungen und monatliche Vorauszahlungen bei der Umsatzsteuer</b>	vom 25. Juni 1931	RGBl. 1931 I, p. 345	N	DR	25.06.1931	10.11.1931		115,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Hoover moratorium - London Protocol of August 11, 1931</b>	vom 11. August 1931		X	ET	11.08.1931	01.07.1931		-590,00
<b>Vierte Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen und zum Schutze des inneren Friedens</b>	vom 8. Dezember 1931	RGBl. 1931 I, p. 699						
<i>Erster Teil Kapitel II §4 - Ganz oder teilweiser Erlass der Beförderungssteuer für den Personenverkehr</i>			N	SS	08.12.1931	09.12.1931		-30,00
<i>Vierter Teil Kapitel III - Mineralwassersteuer</i>			N	SS	08.12.1931	01.01.1932	31.12.1933	-12,00
<i>Siebenter Teil Kapitel I - Umsatzsteuer</i>			N	DR	08.12.1931	01.01.1932		700,00
<i>Siebenter Teil Kapitel III - Reichsfluchtsteuer</i>			N	DR	08.12.1931	10.12.1931	31.12.1932	0,60
<b>Verordnung des Reichspräsidenten über Biersteuersenkung, Realsteuersperre 1932 und sonstige steuerliche, wirtschafts- und zollpolitische Maßnahmen</b>	vom 19. März 1932	RGBl. 1932 I, p. 135						
<i>Erster Teil - Biersteuersenkung</i>			N	DM	19.03.1932	22.03.1932		-105,00
<i>Dritter Teil - Kraftfahrzeugsteuer</i>			N	DM	19.03.1932	01.04.1932	30.04.1933	-9,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung des Reichspräsidenten über die Anpassung der Vermögensteuer, Erbschaftsteuer und Grunderwerbsteuer an die seit dem 1. Januar 1931 eingetretenen Wertrückgänge</b>	vom 12. Mai 1932	RGBL. 1932 I, p. 192	X	IL	12.05.1932	01.04.1932		-80,00
<b>Verordnung des Reichspräsidenten über Maßnahmen zur Erhaltung der Arbeitslosenhilfe und der Sozialversicherung sowie zur Erleichterung der Wohlfahrtslasten der Gemeinden</b>	vom 14. Juni 1932	RGBL. 1932 I, p. 273						
<i>Zweiter Teil Kapitel II - Abgabe zur Arbeitslosenhilfe</i>			N	DR	14.06.1932	01.07.1932		533,33
<i>Dritter Teil Kapitel II - Salzsteuer</i>			N	DR	14.06.1932	16.07.1932		70,00
<i>Dritter Teil Kapitel III - Aufhebung der Krisenlohnsteuer</i>			N	DR	14.06.1932	01.07.1932		-156,00
<i>Dritter Teil Kapitel III - Weitererhebung der Krisensteuer der Veranlagten</i>			N	DR	14.06.1932	01.04.1932	31.03.1933	45,00
<i>REVERSE: Weitererhebung</i>			N	DR	14.06.1932	31.03.1933		-45,00
<i>Dritter Teil Kapitel I Artikel 1 - Aufhebung der Umsatzsteuerbefreiung von Steuerpflichtigen von nicht mehr als 5000 RM Umsatz jährlich</i>			N	DR	14.06.1932	01.07.1932		130,00
<i>Dritter Teil Kapitel IV - Aufbringungsumlage 1932</i>			N	SS	14.06.1932	01.04.1932		-130,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung des Reichspräsidenten zur Belebung der Wirtschaft</b>	vom 4. September 1932	RGBL. 1932 I, p. 425						
<i>Erster Teil Kapitel I Zweiter Abschnitt - Steuergutscheine für Steuerzahlungen</i>			N	SS	04.09.1932	01.04.1934	31.03.1939	-316,60
<i>Erster Teil Kapitel I Dritter Abschnitt - Steuergutscheine für Mehrbeschäftigung</i>			N	SS	04.09.1932	01.04.1934	31.03.1939	-20,80
<b>Verordnung über Mineralölsteuer</b>	vom 24. Dezember 1932	RGBL. 1932 I, p. 578	N	DR	24.12.1932	01.01.1933		7,60
<b>Gesetz über Änderung des Kraftfahrzeugsteuergesetzes</b>	vom 10. April 1933	RGBL. 1933 I, p. 192	N	DM	10.04.1933	20.04.1933		-7,50
<b>Gesetz über Erhöhung der Rennwettsteuer</b>	vom 10. April 1933	RGBL. 1933 I, p. 191	N	SD	10.04.1933	01.05.1933		12,00
<b>Verordnung über die Erhebung einer Ausgleichsabgabe auf Fette</b>	vom 13. April 1933	RGBL. 1933 I, p. 206	N	SD	13.04.1933	01.05.1933		150,00
<b>Gesetz über die Höhe der Aufbringungsumlagen</b>	vom 30. Mai 1933	RGBL. 1933 I, p. 315			30.05.1933	01.04.1933		
<b>Gesetz über Ablösung der Kraftfahrzeugsteuer</b>	vom 31. Mai 1933	RGBL. 1933 I, p. 315						

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>Artikel I - Ablösung der Kraftfahrzeugsteuer</i>			N	SD	31.05.1933	15.06.1933	31.03.1934	113,75
<i>REVERSE: Ablösung</i>			N	SD	31.05.1933	31.03.1934		-113,75
<i>Artikel I - Kraftfahrzeugsteuerbefreiung durch einmalige Ablösung</i>			N	SD	31.05.1933	15.06.1933		-50,00
<b>Gesetz zur Verminderung der Arbeitslosigkeit</b>	vom 1. Juni 1933	RGBL. 1933 I, p. 323						
<i>Abschnitt III - Freiwillige Spende zur Förderung der nationalen Arbeit</i>			N	SD	01.06.1933	01.07.1933	31.03.1934	150,00
<i>REVERSE: Arbeitspendengesetz</i>			N	SD	01.06.1933	31.03.1934		-150,00
<i>Abschnitt IV - Überführung weiblicher Arbeitskräfte in die Hauswirtschaft</i>			N	DM	01.06.1933	01.07.1933		-40,00
<i>Abschnitt V - Förderung der Eheschließungen</i>			X	IL	01.06.1933	01.07.1933		135,00
<b>Gesetz zur Regelung der Warenhausteuer und der Filialsteuer für das Jahr 1933</b>	vom 15. Juli 1933	RGBL. 1933 I, p. 492	X	LR	15.07.1933	01.04.1933		70,00
<b>Zweites Gesetz zur Verminderung der Arbeitslosigkeit</b>	vom 21. September 1933	RGBL. 1933 I, p. 651						
<i>Abschnitt II - Senkung der landwirtschaftlichen Grundsteuer</i>			N	DM	21.09.1933	01.10.1933	31.03.1935	-100,00
<i>REVERSE: Senkung</i>			N	DM	21.09.1933	31.03.1935		100,00
<i>Abschnitt III - Senkung der Umsatzsteuer für die Landwirtschaft</i>			N	DM	21.09.1933	01.10.1933		-60,00
<i>Abschnitt V - Senkung der Grundsteuer für Neuhausbesitz</i>			N	DM	21.09.1933	01.10.1933	31.03.1935	-33,34

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>REVERSE: Senkung</i>			N	DM	21.09.1933	31.03.1935		33,34
<b>Gesetz über Änderung der Arbeitslosenhilfe</b>	vom 22. September 1933	RGBL. 1933 I, p. 656	N	DM	22.09.1933	01.10.1933		-48,00
<b>Rderl. des RdF Nr. 835. Ziviler Luftschutz</b>	vom 10. Oktober 1933	RStBl. 1933 p. 1073	N	DM	10.10.1933	01.01.1933		-25,00
<b>Gesetz über Außerkraftsetzung des Mineralwassersteuergesetzes und des Schaumweinsteuergesetzes</b>	vom 15. November 1933	RGBL. 1933 I, p. 975	N	SS	15.11.1933	01.12.1933	31.03.1936	-3,90
<b>Schlachtsteuergesetz</b>	vom 24. März 1934	RGBL. 1934 I, p. 238			24.03.1934	01.05.1934		
<b>Gesetz zur Erhaltung und Hebung der Kaufkraft</b>	vom 24. März 1934	RGBL. 1934 I, p. 235						
<i>Abschnitt III Abgabe zur Arbeitslosenhilfe</i>			N	DM	24.03.1934	01.04.1934	31.12.1934	-300,00
<i>REVERSE</i>			N	DM	24.03.1934	31.12.1934		300,00
<b>Ergänzungsverordnung zum Gesetz über Steuererleichterungen</b>	vom 20. April 1934	RGBL. 1934 I, p. 318						



Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>Ermäßigung der Einkommen- und Körperschaftsteuer für Instandsetzungen und Ergänzungen an Gebäuden</i>			N	DM	20.04.1934	01.01.1934	31.03.1935	-25,00
<i>REVERSE: Ermäßigung</i>			N	DM	20.04.1934	31.03.1935		25,00
<b>Gesetz über Änderungen der Vorschriften über die Reichsfluchtsteuer</b>	vom 18. Mai 1934	RGBL. 1934 I, p. 392	X	IL	18.05.1934	19.05.1934		10,00
<b>Einkommensteuergesetz (EStG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1005						
<i>II. Einkommen 3. Gewinn §6 Bewertung kurzlebiger Anlagegüter bei der Einkommen- und Körperschaftsteuer</i>			X	IL	16.10.1934	01.01.1934		-100,00
<i>IV. Tarif §§32 bis 34</i>			X	IL	16.10.1934	01.01.1935		-60,00
<i>II. Einkommen 8. a) Land- und Forstwirtschaft §13 Absatz 3 - Besteuerung der Einkünfte aus Land- und Forstwirtschaft</i>			N	SS	16.10.1934	01.01.1936		25,00
<b>Umsatzsteuergesetz (UStG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 942						
<i>§7 Absatz 3 - Ermäßigter Umsatzsteuersatz für den Großhandel</i>			N	DM	16.10.1934	01.01.1935		-85,00
<i>§13 Absatz 3 - Kleinbetragsgrenze</i>			N	DM	16.10.1934	01.01.1935		-15,00
<b>Gesetz zur Änderung des Erbschaftsteuergesetzes</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1056	X	IL	16.10.1934	01.01.1935		-20,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Bürgersteuergesetz (BStG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 985	X	IL	16.10.1934	01.01.1935		-41,00
<b>Kapitalverkehrsteuergesetz (KVG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1058						
<i>Teil 1 - Gesellschaftsteuer</i>			X	IL	16.10.1934	01.01.1935		-2,00
<i>Teil 2 - Wertpapiersteuer</i>			X	IL	16.10.1934	01.01.1935		1,00
<i>Teil 3 - Börsenumsatzsteuer</i>			N	SS	16.10.1934	01.01.1935		-3,00
<b>Gesetz über die Schätzung des Kulturbodens (Bodenschätzungsgesetz) (BodSchätzG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1050	X	IL	16.10.1934	12.02.1935		116,00
<b>Vermögenssteuergesetz (VStG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1052	X	IL	16.10.1934	01.04.1936		-40,00
<b>Verordnung über Änderung von Steuersätzen des Schlachtsteuergesetzes</b>	vom 21. März 1935	RGBL. 1935 I, p. 391	N	SS	21.03.1935	01.04.1935		-20,00
<b>Gesetz zur Förderung des Wohnungsbaus</b>	vom 30. März 1935	RGBL. 1935 I, p. 469	N	SD	30.03.1935	31.03.1935		-225,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung über die Führung eines Wareneingangsbuchs</b>	vom 20. Juni 1935	RGBl. 1935 I, p. 752	X	IL	20.06.1935	01.10.1935		300,00
<b>Gesetz zur Änderung des Gesetzes über das Branntweinmonopol</b>	vom 24. September 1935	RGBl. 1935 I, p. 1177	N	DR	24.09.1935	01.10.1935		17,00
<b>Gesetz zur Änderung des Bürgersteuergesetzes</b>	vom 16. Oktober 1935	RGBl. 1935 I, p. 1237	X	IL	16.10.1935	01.01.1936		-7,00
<b>Verordnung über Zolländerungen</b>	vom 23. November 1935	RGBl. 1935 I, p. 1357	N	SD	23.11.1935	30.11.1935		50,00
<b>Gesetz zur Eingliederung der Genossenschaftsfabriken in das Zündwarenmonopol</b>	vom 10. Januar 1936	RGBl. 1936 I, p. 3	X	LR	10.01.1936	01.01.1936		0,30
<b>Urkundensteuergesetz (UrkStG)</b>	vom 5. Mai 1936	RGBl. 1936 I, p. 407	X	LR	05.05.1936	01.07.1936		42,00
<b>Gesetz über die Höhe der Aufbringungsumlagen</b>	vom 17. Juni 1936	RGBl. 1936 I, p. 511			17.06.1936	01.04.1936		*

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz zur Änderung des Beförderungsteuergesetzes</b>	vom 2. Juli 1936	RGBL. 1936 I, p. 531						
<i>Artikel 1, 1. a) 1. + 2. Personenbeförderungsteuer im Kraftfahrzeugverkehr</i>			N	SD	02.07.1936	01.03.1937		20,00
<i>Artikel 1, 1. a) 3. + 4. Güterbeförderungsteuer im Kraftfahrzeugverkehr</i>			N	SD	02.07.1936	01.10.1936		20,00
<b>Gesetz zur Änderung des Körperschaftsteuergesetzes</b>	vom 27. August 1936	RGBL. 1936 I, p. 701						
<i>Artikel 3 - Sondervorschrift für 1936</i>			N	SD	27.08.1936	01.01.1936		500,00
<i>Artikel 1 - Änderung des Steuersatzes</i>			N	SD	27.08.1936	01.01.1937		0,00
<b>Verordnung über Zolländerungen und über Mineralölsteuer</b>	vom 24. November 1936	RGBL. 1936 I, p. 960						
<i>Artikel 1 - Zolländerungen</i>			N	SD	24.11.1936	01.12.1936		113,00
<i>Artikel 2 - Ausgleichsteuer für Mineralöle</i>			N	SD	24.11.1936	01.12.1936		55,00
<b>Gesetz über Abwertungsgewinne</b>	vom 23. Dezember 1936	RGBL. 1936 I, p. 1126	N	SD	23.12.1936			150,00
<b>Verordnung zum Gesetz über die Weitererhebung der Aufbringungsumlage</b>	vom 3. Juli 1937	RGBL. 1937 I, p. 765			03.07.1937	01.04.1937		

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über eine Steuer der Personen, die nicht zur Erfüllung der zweijährigen aktiven Dienstpflicht einberufen werden (Wehrsteuer) - WehrStG</b>	vom 20. Juli 1937	RGBL. 1937 I, p. 822	X	IL	20.07.1937	01.09.1937		18,00
<b>Drittes Gesetz zur Änderung des Bürgersteuergesetzes</b>	vom 3. November 1937	RGBL. 1937 I, p. 1158	X	IL	03.11.1937	01.01.1938		-53,50
<b>Gesetz über die Besteuerung des Wandergewerbes (WGewStG)</b>	vom 10. Dezember 1937	RGBL. 1937 I, p. 1348	X	LR	10.12.1937	01.01.1938		7,00
<b>Gesetz zur Verlängerung der Vorschriften über die Reichsfluchtsteuer</b>	vom 19. Dezember 1937	RGBL. 1937 I, p. 1385	X	IL	19.12.1937	01.01.1938	31.12.1938	103,00
<b>Gesetz zur Änderung des Einkommensteuergesetzes</b>	vom 1. Februar 1938	RGBL. 1938 I, p. 99						
<i>Artikel II Ziffer 1 - Besteuerung von Einkommen über 100000 RM</i>			X	LR	01.02.1938	01.01.1937		-3,00
<i>Artikel II Ziffer 2 - Neugestaltung der untersten Stufe der Lohnsteuertabelle</i>			X	LR	01.02.1938	01.01.1937		-1,00
<i>Artikel III - Bewertungsfreiheit für kurzlebige Wirtschaftsgüter</i>			N	DM	01.02.1938	01.10.1937		30,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz zur Erhöhung der Körperschaftsteuer für die Jahre 1938 bis 1940</b>	vom 25. Juli 1938	RGBL. 1938 I, p. 952						
<i>für das Kalenderjahr 1938</i>			N	SD	25.07.1938	01.01.1938		650,00
<i>für das Kalenderjahr 1939</i>			N	SD	25.07.1938	01.01.1939		0,00
<b>Verordnung über die Zuständigkeit für die Verwaltung der Grunderwerbsteuer</b>	vom 1. August 1938	RGBL. 1939 I, p. 971	N	SD	01.08.1938	01.04.1939		28,00
<b>Verordnung über eine Sühneleistung der Juden deutscher Staatsangehörigkeit</b>	vom 12. November 1938	RGBL. 1938 I, p. 1579	X	IL	12.11.1938	12.11.1938		1000,00
<b>Feuerschutzsteuergesetz (FeuerschStG)</b>	vom 1. Februar 1939	RGBL. 1939 I, p. 113	N	SD	01.02.1939	01.01.1939		22,00
<b>Süßstoffgesetz</b>	vom 1. Februar 1939	RGBL. 1939 I, p. 111	X	LR	01.02.1939	01.03.1939		1,85
<b>Gesetz zur Änderung des Einkommensteuergesetzes</b>	vom 17. Februar 1939	RGBL. 1939 I, p. 283						
<i>§1 Ziffern 1 und 4 - Sonderausgaben, Werbungskosten: 1. Beseitigung des Hausgehilfinnen-Privilegs; 2. Beseitigung der Abzugsfähigkeit der Kirchensteuer; 3. Beseitigung der Mindestpauschbetrags für Sonderausgaben und Werbungskosten</i>			N	SD	17.02.1939	01.01.1939		120,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>§1 Ziffern 2 und 3 (Steuerklassen) und zu §2 (Erweiterung der Kinderermäßigung)</i>			N	SD	17.02.1939	01.01.1939		275,00
<i>§3 - Abgabe der Aufsichtsratsmitglieder</i>			N	SD	17.02.1939	01.04.1939		8,00
<b>Gesetz über die Finanzierung nationalpolitischer Aufgaben des Reichs (Neuer Finanzplan -NF-) - Abschnitt III Mehreinkommensteuer</b>	vom 20. März 1939	RGBl. 1939 I, p. 562	N	SD	20.03.1939	01.01.1939		500,00

## 1925/26 Budget:

*Reich Minister of Finance:* Otto von Schlieben (DNVP);

*Chancellor of the German Reich:* Hans Luther (independent)

### Context

In the aftermath of the Reichstag elections of 7 December 1924, the former Reich Minister of Finance Hans Luther was appointed Reich Chancellor of a coalition of Zentrum, BVP, DVP and DNVP on 15 January 1925. Since 6 October 1923, as Reich Finance Minister, he had been involved in currency stabilisation alongside Reichsbank President Hjalmar Schacht and his restrictive monetary policy by reorganising the Reich budget. While the emergency tax decrees of 7 December 1923,<sup>49</sup> of 19 December 1923<sup>50</sup> and of 14 February 1924<sup>51</sup> served to increase revenues, expenditures were reduced by cutting personnel costs. As a result of the three emergency tax hikes, the tax-to-GDP ratio as an indicator of the tax burden on the economy as a whole was well over 11 per cent in the first two quarters of 1925. Only in a phase of strict deflationary policies was this level reached again in the third quarter of 1930.<sup>52</sup> The unemployment rate among the members of the workers' trade unions had reached a peak of 28.2 per cent after the currency reform in December 1923 and was still 13.5 per cent on average in the calendar year 1924.<sup>53</sup> Since the currency reform of 1924, no alterations had been made by the German Reichsbank to the Bank rate until it was cut from 10 to 9 per cent on 26 February 1925 while inflation was 10.7 per cent at an annual rate in the first quarter of 1925.<sup>54</sup>

### Overall budget objectives

The debate on the Reich budget for the fiscal year 1925 was opened with the government declaration by Reich Chancellor Hans Luther on 19 January 1925.

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<sup>49</sup>RGBl. 1923 I, p. 1177.

<sup>50</sup>RGBl. 1923 I, p. 1205.

<sup>51</sup>RGBl. 1924 I, p. 74.

<sup>52</sup>Based on Ritschl (2002b), series C.2.3 and A.6.5 - A.6.13.

<sup>53</sup>Statistisches Jahrbuch für das Deutsche Reich 1926, p. 304.

<sup>54</sup>Statistisches Jahrbuch für das Deutsche Reich 1926, p. 259.



It was not until about a year later, after a series of transitional arrangements, on 22 January 1926, that the Reich Budget was passed by the Reichstag and subsequently issued on 30 January 1926.<sup>55</sup>

In his programmatic speech, Luther also took a stand on economic and fiscal policy matters. In the expiry of the unilateral most-favoured-nation clause in favour of the Allies from the Treaty of Versailles, he recognised a foreign economic opportunity: “The Reich government will make use of the freedom thus gained so that Germany’s economic life may become healthy, namely also so that sufficient employment opportunities with adequate remuneration may be created. The German economy must be reintegrated into the world economy.” In particular, by increasing exports, the imposed reparation payments should become more sustainable: “Only in this way can the passivity of the balance of trade be overcome and with its activation can the fulfilment of our international obligations be secured.” To promote exports, a series of trade agreements should follow. Domestically, he describes the priorities as follows: “Increasing agricultural production from German soil and strengthening domestic purchasing power are the goal; the Reich government will resolutely pursue the paths to this end.” Likewise, the persistent inflation and the still high unemployment should be fought and an improvement of the economic situation should be reflected in the development of wages and salaries.<sup>56</sup>

With regard to the sustainability of the obligations under the Treaty of Versailles, he remarked that the design of the tax system was crucial and announced a reform: “Laws have been prepared to bring about systematic, uniform, economically correct and socially just taxation in the clearest simple forms.” Even after the tax reform, the tax burden would still remain extraordinarily high, but the measures should nevertheless provide tax relief: “Taxes, however, if they are not to defeat their own purpose in the long run, must not be so oppressive as to cripple economic strength or impose an unsustainable burden on the working population.”<sup>57</sup>

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<sup>55</sup>RGBl. 1926 II, p. 103.

<sup>56</sup>RT-Bd. 384, p. 94.

<sup>57</sup>RT-Bd. 384, p. 95.

## The London Conference of August 1924 - Dawes-Plan

At the request of Germany and under pressure from the Anglo-Saxon governments, France agreed to the appointment of a committee of experts by the Reparations Commission, which oversaw the enforcement of the Treaty of Versailles. Chaired by Charles G. Dawes, it was to discuss the issues of balancing the Reich's budget and stabilising the currency after the hyperinflation. The report published on 9 April 1924, however, went beyond this mandate and proposed a reparation plan with gradually increasing annuities that were to reach their full amount by the fifth year 1928/29. From the sixth year supplementary payments according to a prosperity index were to become payable. The annuities, which were denominated in gold marks, were to be paid into the account of the Agent General for Reparation Payments at the Reichsbank.<sup>58</sup> The transfer of these sums abroad under the protection of the German exchange was in the hands of the reparation creditors. While the total amount was left open, the amount to be raised annually by the Reichsbahn, the Reich budget and the industry was to be regulated. The Expert Committee's proposals,<sup>59</sup> with the approval of the Reparations Commission of 9 August 1924, were agreed on as Dawes Plan in the Final Protocol of the London Conference on 16 August 1924 intending a new reparations regime between Germany and the creditor countries.<sup>60</sup> The new *modus operandi* could not be adopted without the approval of the national parliaments. This ratification took place by the German Reichstag on 29 August 1924<sup>61</sup> with the Act on the London Conference (Gesetz über die Londoner Konferenz) being published the next day.<sup>62</sup>

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<sup>58</sup>However, since the annual reparation annuities are indicated in gold marks, a methodological remark becomes necessary. Hereafter, analogous to Section XX of the budget devoted to war liabilities, a one-to-one parity is assumed between gold marks and Reichsmark, and they are used synonymously. For Section XX devoted to war liabilities of the budget see for instance: Einzelplan XX - Haushalt der Kriegslasten für das Rechnungsjahr 1925, pp. 12-13.

<sup>59</sup>For the reports of the expert committees appointed by the Reparations Commission, the so-called Dawes Plan, see the records of the German Reichstag (RT-Bd. 382, Drucks. Nr. 5) and the UK Parliament (Great Britain. Foreign Office, 1924b).

<sup>60</sup>Great Britain. Foreign Office (1924a), RT-Bd. 383, Drucks. Nr. 446.

<sup>61</sup>RT-Bd. 381, p. 1085.

<sup>62</sup>RGBl. 1924 II, p. 289.

The mutual acceptance of the protocol was signed in London on 30 August 1924,<sup>63</sup> allowing the Dawes Plan to enter into force on 1 September 1924.<sup>64</sup>

The plan envisaged three sources for raising the reparation payments: The budget, debentures of the Reichsbahn as well as bonds issued by the German industry. At the London Conference, in addition to direct reparations payments from the budget, the German government consented to the imposition of obligations on the yet to be founded railway company and industry, which will be discussed later.

Initially 250 million gold marks were to be raised once in the second year 1925/26 by the Reich from the sale of preference shares in the newly founded railway company or by the issue of a domestic bond.<sup>65</sup> The amount was finally generated by selling preference shares in the Reichsbahn.<sup>66</sup> The regular budget contributions to the reparations were to amount to 110 million gold marks in the third reparation year 1926/27. In the fourth and fifth years of reparations they increased to 500 million gold marks in 1927/28 and to 1250 million gold marks from the following year 1928/29 onwards.<sup>67</sup> These payments were secured by pledging the revenues from spirits, tobacco, beer, sugar and customs duties. By exceeding 1 billion in proceeds from taxes pledged to secure reparation payments in the third and 1.25 billion gold marks in the fourth reparation year, two further instalments of 250 million gold marks each became due as an additional budget contribution.<sup>68</sup> These liabilities totalling 500 million gold marks were replaced under an agreement between the German government and the Reparations Commission of 8 September 1926 by a one-off supplementary budget contribution of 300 million gold marks in the third reparations year in order to improve the gradation and to avoid an excessive burden on the German economy.<sup>69</sup>

In addition to these direct payments, the revenues from the transportation tax were also to serve reparations up to an amount of 250 million gold marks in the

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<sup>63</sup>Great Britain. Foreign Office (1924c).

<sup>64</sup>RGBl. 1924 II, p. 358.

<sup>65</sup>RGBl. 1924 II, p. 307.

<sup>66</sup>Haushalt für die Kriegslasten für das Rechnungsjahr 1925, pp. 12-13.

<sup>67</sup>RGBl. 1924 II, p. 300.

<sup>68</sup>RGBl. 1924 II, p. 300.

<sup>69</sup>Agent General for Reparation Payments (1927b), Exhibit I., p. 121; Statistisches Reichsamt (1929b), pp. 15-16.

reparations year 1925-26 and 290 million gold marks from 1926-27 on.<sup>70</sup> Figure 3.6 summarises the transitional German reparation annuities from the different sources until a normal year is reached in 1928-29. These budgetary burdens had a decisive influence on the spending and taxation decisions of the following years in the struggle to balance the budget. The bonds imposed on the German Reichsbahn and industry have a direct tax-like effect through their interest and amortisation obligations and are thus discussed below.

The Act on the London Conference (Gesetz über die Londoner Konferenz) of 30 August 1924 authorised the Reich government to take the necessary measures to provide the trustee of the Reparations Commission with bonds of both the Deutsche Reichsbahn-Gesellschaft to the value of 11 billion gold marks and of German industry worth 5 billion gold marks.<sup>71</sup> In order to implement the Dawes Report, corresponding accompanying bills had already been introduced into parliament with the draft on the London Conference Act<sup>72</sup> and were advocated in the government declaration of 23 August 1924.<sup>73</sup> The Dawes Plan contemplated the transfer of railway operating rights to a newly formed company called “Deutsche Reichsbahn-Gesellschaft”, under which debentures in the nominal value of 11 billion gold marks were to be issued for reparation purposes.<sup>74</sup> The company statutes passed with the Law on the German Railways Company (Gesetz über die Deutsche Reichsbahn-Gesellschaft, short: Reichsbahngesetz) of 30 August 1924<sup>75</sup> stipulated that the first mortgage bonds shall bear interest at the rate of 5 per cent per annum and shall be redeemed from the fourth year onwards at the rate of 1 per cent plus the saved interest while the annual payments to the trustee were limited to 200 million gold marks in the first financial year, to 595 million in the second, to 550 million in the third and to 660 million from the fourth on.<sup>76</sup> The amount that exceeded the interest payment was to be allocated to a sinking fund, which served to redeem the bonds.

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<sup>70</sup>RT-Bd. 382, Drucks. Nr. 5, Letter from the chairman, pp. VII-XIII.

<sup>71</sup>RGBl. 1924 II, pp. 289, 331.

<sup>72</sup>RT-Bd. 383, Drucks. Nr. 447, 452.

<sup>73</sup>RT-Bd. 381, p. 771.

<sup>74</sup>RT-Bd. 382, Drucks. Nr. 5, Annex No. 4, pp. 124-132.

<sup>75</sup>RGBl. 1924 II, p. 272. Beförderungssteuer 274, Reparationsschuldverschreibungen Anlage Gesellschaftssatzung p. 282.

<sup>76</sup>RGBl. 1924 II, p. 282.

Since the actual payments of the Reichsbahn for servicing the bond, as logged by the German Statistical Office<sup>77</sup> and the Reparation Agent,<sup>78</sup> change with the reparation years, which runs from 1 September to 31 August of the following year, the annual change in liability is dated to 1 September until the full amount of the annuity is reached. Only the first financial year, which ran for a total of one year and four months due to the enactment of the law in August, is an exception to the later practice both in terms of the payment modalities and the timing of the change in the annual obligations. The bonds were paid in two instalments at the end of each half-year of the reparation year, and it is assumed that the Reichsbahn's liabilities did not increase by 200 million RM until 1 January 1925. From October 1925, the payments were made monthly. In the second reparation year, the annuities increased by 395 million to 595 million on 1 September 1925, in the third they fell by 45 million to 550 million on 1 September 1926, before increasing by 110 million from the fourth year on to their full amount of 660 million gold marks on 1 September 1927.<sup>79</sup>

Section 15 of the Law on the German Railways Company (Gesetz über die Deutsche Reichsbahn-Gesellschaft) also regulated the allocation of the transport tax for reparation purposes.<sup>80</sup> The Dawes Plan designated the revenues of the transport tax in the rates applicable in April 1924 as payments to the reparations agent for the entire duration of the concession. This also implied that the transport tax rate was not to be reduced.<sup>81</sup> Finally, the Reichsbahngesetz provided for an annual maximum of the amount to be paid to the reparations agent, while all amounts beyond that were to accrue to the Reich budget. For the transition period, the full proceeds were to accrue to the Reich in the first financial year. In the second financial year, all earnings up to the amount of 250 million gold marks were to be transferred to the reparations agent and all earnings above that amount were to be transferred to the Reich. For the following years, a threshold value

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<sup>77</sup>Statistisches Reichsamt (1929b), Übersicht 1, p. 54.

<sup>78</sup>Commissioner for the German Railways (1926, 1927b,a, 1928b,a), Annex II.

<sup>79</sup>In contrast to the budgets, the reports of the Agent General for Reparation Payments also show in Annex II the respective payments in Reichsmarks, taking into account the conversion into gold marks and the reduction granted for advance payments.

<sup>80</sup>RGBL. 1924 II, p. 274.

<sup>81</sup>RT-Bd. 382, Drucks. Nr. 5, Report of the first committee of experts, p. 131.

of 290 million gold marks applied for this distribution of tax revenues.<sup>82</sup> These reparation regulations only have an impact on the tax level insofar as they reduce the budgetary leeway and *de facto* introduce a lower bound for the transport tax rates. There are no direct implications in terms of tax changes.

Analogous to the arrangements taken to hand over the Reichsbahn debentures to the trustee, the burden on industry was also regulated along with the Act on the London Conference. The Industrial Charges Law (Gesetz über die Industriebelastung, short: Industriebelastungsgesetz) of 30 August 1924 obligated the entire industrial and commercial enterprises to pay interest on and redeem 5 billion gold marks.<sup>83</sup> This total charge was apportioned according to the business assets determined by the wealth tax assessment. The resulting individual bonds were bundled in the *Bank für deutsche Industrie-Obligationen* (Bank for German Industrial Bonds), which in turn issued industrial bonds with an equivalent value of 5 billion gold marks. These obligations bore interest at 5 per cent per annum and were to be redeemed from the fourth annuity year onwards at 1 per cent per annum plus the interest saved. A relief was provided in the way that in the first reparation year the individual bonds and the industrial bonds issued on the basis of them by the Bank für Industrie-Obligationen in two series of 2.5 billion gold marks each were non-interest bearing. In the second annuity year, the relief was structured in such a way that only one of the two series was to bear interest at 5 per cent, which meant that the individual bonds were only to bear interest at 2.5 per cent.<sup>84</sup> These transitional arrangements result in no charges in the first reparation year. In the second and third years they amounted to 125 million<sup>85</sup> and 250 million<sup>86</sup> respectively before reaching their full magnitude in the fourth year at 300<sup>87</sup> million gold marks.

The annual raising of funds for interest and redemption purposes of the industrial bonds was regulated in parallel by the *Gesetz zur Aufbringung der Industriebelastung (Aufbringungsgesetz)* of 30 August 1924.<sup>88</sup> The apportionment

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<sup>82</sup>RGBl. 1924 II, p. 274.

<sup>83</sup>RGBl. 1924 II, p. 257.

<sup>84</sup>Statistisches Reichsamt (1929b), p. 15.

<sup>85</sup>Haushalt für die Kriegslasten für das Rechnungsjahr 1926, pp. 14-15.

<sup>86</sup>Haushalt für die Kriegslasten für das Rechnungsjahr 1927, pp. 34-35.

<sup>87</sup>Haushalt für die Kriegslasten für das Rechnungsjahr 1928, pp. 36-37.

<sup>88</sup>RGBl. 1924 II, p. 269.

of the annuities was based on the capital amount determined on the basis of the business assets assessed for capital tax and thus followed the general rules for the apportionment of the industrial burden. The government, in turn, set the annual application rates on the liable business assets. Since the necessary rates were based on the annual obligations to be collected, but also on the nominal value of business assets assessed by the capital tax on basis of the preceding calendar year, the corresponding implementing ordinances, with the exception of 1927, only followed at the beginning of the respective calendar year. Accordingly, the levy was collected in two instalments according to the calendar year, and changes in its amount are to be dated at the turn of the year.

On the basis of the *Dritte Durchführungsverordnung zum Aufbringungsgesetze* of 12 January 1926, the industrial charges were levied for the first time in 1926. It implied an additional burden in the sense of taxation of 125 million gold marks as of 1 January 1926.<sup>89</sup> As of 1 January 1927, the burden increased by a further 125 million to 250 million gold marks due to the *Verordnung über Vorauszahlungen nach dem Aufbringungsgesetze für das Kalenderjahr 1927 (Vierte Durchführungsverordnung zum Aufbringungsgesetze)* of 21 December 1926.<sup>90</sup> This burden was further increased by 50 million to 300 million gold marks due to the redemption that became necessary as of 1 January 1928. This increase was implemented by the *Verordnung über die Aufbringungssätze für 1926 bis 1928 (Achte Durchführungsverordnung zum Aufbringungsgesetze)* of 19 January 1928.<sup>91</sup> Since the method applied uses nominal amounts of projected revenue changes due to tax amendments, alternative information on tax-like changes such as the reductions of the second instalments by 20 per cent for the years 1928<sup>92</sup> and 1929<sup>93</sup> or the reduction of the rate imposed while revenue remains constant as happened between 1928 and 1930 can not be used in the further course.<sup>94</sup>

The Dawes-Plan was based on the “principles of justice, fairness and mutual interest”, while “the recommendations [...] must be considered not as inflicting

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<sup>89</sup>RGBl. 1926 II, p. 101; RAnz. No. 10 of 13 January 1926.

<sup>90</sup>RGBl. 1926 II, p. 805.; RAnz. No. 298 of 22 December 1926.

<sup>91</sup>RGBl. 1928 II, p. 10; RAnz. No. 18 of 21 January 1928.

<sup>92</sup>RGBl. 1928 II, p. 495; RAnz. No. 127 of 2 June 1928.

<sup>93</sup>RGBl. 1929 II, p. 572; RAnz. No. 152 of 3 July 1929.

<sup>94</sup>RGBl. 1929 II, p. 32, RAnz. No. 4 of 5 January 1929, RGBl. 1930 II, p. 14, RAnz. No. 12 of 15 January 1930.

penalties, but as suggesting means for assisting the economic recovery of all the European peoples and the entry upon a new period of happiness and prosperity unmenaced by war”.<sup>95</sup> With regard to taxation, it states that “since, as a result of the war, the creditors of Germany are paying taxes to the limit of their capacity, so also must Germany pay taxes from year to year to the limit of her capacity.” A higher tax burden could not be expected, while a lower one would give Germany an undue advantage. That German taxation should correspond to the level of the Allied Powers was “just and underlying principle of the Treaty of Versailles” and had been confirmed by the German Reich in the note of 29 May 1919.<sup>96</sup> The argument of a commensurate taxation is later elaborated on in the report: “Obviously it is morally sound; and it would clearly repugnant to all sense of natural justice that the taxpayers of countries with large and important regions devastated by the war should bear the burden of restoring them, while the taxpayer of Germany, on whose territory the war caused no comparable devastation, escaped with a lighter burden.”<sup>97</sup>

From the German point of view, Reich Chancellor Marx, when introducing the necessary legislation into the Reichstag, described the Dawes Plan as “just as unpleasant for the German people in its innermost essence as the Versailles Treaty imposed on us.”<sup>98</sup> Reich Finance Minister Luther added to this that “the total burden is extraordinarily high and that the encroachments on the German people’s own life are extraordinarily heavy”. But he also objected that “only if the London arrangements are accepted can our economy be provided with the relief for which it is rightly asking, namely the adaptation of our tax system to economic and social necessities and a perceptible reduction in railway tariffs.” He describes the inflow of foreign capital as central to the success of the Dawes Plan: “Even long-term foreign loans on tolerable terms, which, after all I have explained, are crucially important, will only come when the London resolutions are adopted.”<sup>99</sup> According to the Dawes Plan, the inflow of capital was to come from the restoration of confidence in the German economy and its government.

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<sup>95</sup>RT-Bd. 382, Drucks. Nr. 5, Letter from the chairman, p. II.

<sup>96</sup>RT-Bd. 382, Drucks. Nr. 5, Letter from the chairman, p. II.

<sup>97</sup>RT-Bd. 382, Drucks. Nr. 5, Report of the first committee of experts, p. 14.

<sup>98</sup>RT-Bd. 381, p. 772.

<sup>99</sup>RT-Bd. 381, p. 778.



This was to be facilitated by a stable domestic currency and a durable budgetary balance with the simultaneous return of “full economic and fiscal sovereignty” and a predictable level of annual reparations obligations with simultaneous “temporary relief from charges on the budget” by the Allies.<sup>100</sup> Likewise, in view of the reorganisation of the Reichsbahn, the “full interest and sinking fund charges” were not to be required for a transitional period.<sup>101</sup> This limitation also applied to industrial bonds, but with reference to the “depletion of the liquid capital supply in Germany, and that a period should be provided for its recuperation”.<sup>102</sup>

Due to the fact that all Dawes Plan commitments stem from foreign policy linkages originating in the Treaty of Versailles, all measures in this context are classified as exogenous (X), external (ET). Since the general imposition of the Dawes Plan clearly follows ideological considerations, but the concrete design with a transitional period to restore Germany’s capacity to pay reparations obligations rather follows economic considerations, an alternative distinction can be made here. The initial introduction of the measures in question could be classified as exogenous (X), ideological (IL), while all subsequent ones could each be categorised as endogenous (N), demand management (DM).

### Pre-1925 tax changes

On 9 December 1924, a *Verordnung über das Außerkrafttreten der Börsensteuerverordnung* was issued,<sup>103</sup> according to which the provisions of the stock exchange tax regulated in the *Börsensteuerverordnung* of 14 February 1924<sup>104</sup> were repealed. Pursuant to § 11, the provisions were designed from the outset to be limited in time, but the date of repeal was to be regulated by the Reich government with the consent of the Reichsrat. “The Government now proposes to repeal this Stock Exchange Tax Ordinance with effect from the expiry of 31 December 1924. The reason given for this is that at that time, with the rapid and extraordinary price fluctuations, stock exchange visitors had profit opportunities which were not open to other sections of the population. After the stabilisation of the currency, the

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<sup>100</sup>RT-Bd. 382, Drucks. Nr. 5, Letter from the chairman, p. IX.

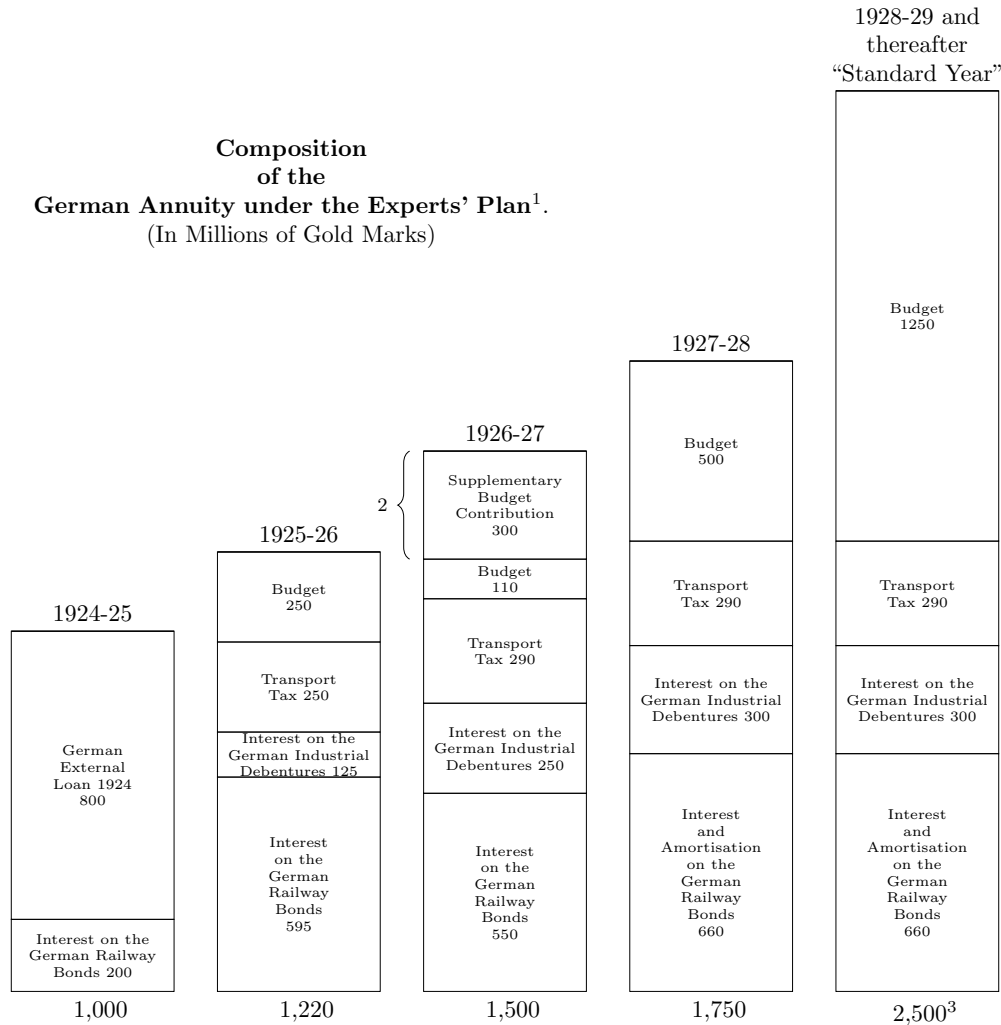
<sup>101</sup>RT-Bd. 382, Drucks. Nr. 5, Report of the first committee of experts, p. 29.

<sup>102</sup>RT-Bd. 382, Drucks. Nr. 5, Report of the first committee of experts, p. 32.

<sup>103</sup>RGBl. 1924 I, p. 771.

<sup>104</sup>RGBl. 1924 I, p. 113.

Figure 3.6: German reparations under the Dawes-Plan



<sup>1</sup> The Annuity year runs from September 1st to August 31st.

<sup>2</sup> The Plan fixed the third Annuity at 1,200 million gold marks. It provided, however, for two contingent supplementary contributions, payable from the German budget in the fourth and fifth Annuity years, amounting in the aggregate to 500 million gold marks. By an agreement between the Reparation Commission and the German Government, executed September 8, 1926, the two contingent supplementary contributions have been replaced by a single definite payment of 300 million gold marks, to be made during the third Annuity year.

<sup>3</sup> Subject to increase as from 1929-30 onwards, depending on the index of prosperity described in the Plan.

*Source:* Agent General for Reparation Payments (1927b, Exhibit I.; p. 121).

*Notes:* This illustration appears annually in the reports between 1925 and 1930. Since the reports of the Reparation Commission were published in each of the three languages of the contracting parties involved in the Dawes Plan, German and French versions of this depiction can also be found in each of the respective publications. A reprint can additionally be found in Dalberg (1928, p. 51, Anlage I.).

price fluctuations had become smaller and the turnover had slowed down. The stock exchange tax, which had only been created for a transitional period, could no longer be adhered to.”<sup>105</sup> The abolition of the stock exchange tax leads to an expected shortfall in revenue of 4 million RM compared to the estimate for 1924.<sup>106</sup> The justification for the abolition of the stock exchange tax emphasises the temporal limitation of the measure, which served to tax extraordinary stock exchange profits for reasons of justice. Hence, I classify the measure as exogenous (X), ideological (IL).

### Tax reform of August 1925

On 30 April 1925, Otto von Schlieben, who had been appointed Reich Minister of Finance on 19 January 1925, introduced the cornerstones of the tax reform promised by Reich Chancellor Hans Luther to the Reichstag. In addition to the *Gesetz zur Überleitung der Einkommensteuer und Körperschaftsteuer in das regelmäßige Veranlagungsverfahren*, short *Steuerüberleitungsgesetz*,<sup>107</sup> which had already been passed on 29 May 1925, and the *Gesetz über die Aufwertung von Hypotheken und anderen Ansprüchen*, short *Aufwertungsgesetz*,<sup>108</sup> of 16 July 1925 the reform work of 10 August 1925 included amendments to the *Einkommensteuergesetz*,<sup>109</sup> the *Körperschaftsteuergesetz*,<sup>110</sup> the *Reichsbewertungsgesetz*,<sup>111</sup> the *Gesetz über Vermögen- und Erbschaftsteuer*,<sup>112</sup> the *Gesetz zur Änderung der Verkehrsteuern und des Verfahrens*,<sup>113</sup> the *Gesetz über Erhöhung der Bier- und Tabaksteuer*,<sup>114</sup> and the *Gesetz zur Änderung von Verbrauchsteuern*.<sup>115</sup>

When introducing the draft laws to the Reichstag, Schlieben emphasised the comprehensive significance of the reform: “These drafts tackle a piece of legislation which, in the chequered history of the financial economy of the German Reich, can

<sup>105</sup>RAnz. No. 287 of 5 December 1924.

<sup>106</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1925, pp. 2-3.

<sup>107</sup>RGBl. 1925 I, p. 75.

<sup>108</sup>RGBl. 1925 I, p. 117.

<sup>109</sup>RGBl. 1925 I, p. 189.

<sup>110</sup>RGBl. 1925 I, p. 208.

<sup>111</sup>RGBl. 1925 I, p. 214.

<sup>112</sup>RGBl. 1925 I, p. 233.

<sup>113</sup>RGBl. 1925 I, p. 241.

<sup>114</sup>RGBl. 1925 I, p. 244.

<sup>115</sup>RGBl. 1925 I, p. 248.

hardly be compared to another, not only in its external scope, but mainly in its economic, social, fiscal and political significance". After the currency reform and the budget consolidation, a lasting tax system was created: "The shell begun with the emergency tax ordinances, which had to be hastily executed under the pressure of the circumstances at the time, is now to be expanded in a form determined for the long term, and the tax burden is to be brought into line, on the one hand, with the economic conditions as they have developed after the end of the inflationary period and the transitional period that followed it, and, on the other hand, with the special financial situation of the German Reich characterised by the reparation burdens."<sup>116</sup>

The bills contained "a reorganisation of almost the entire previous tax system", aimed at "bringing the tax burdens into line with the economic conditions".<sup>117</sup> The reparations were to be made bearable through increased production and a higher borrowing capacity. The precondition for this, however, was that "for a tax legislation determined for the long term, an attempt must be made again, as far as possible, to return the tax to the source from which alone taxes can constantly flow, namely to the income of the people, and all obstacles to the economy which stand in the way of normal development must be removed."<sup>118</sup> In this sense, the "mitigation of tax rates" would serve to stimulate production, increase the will to work and improve tax collection. The reform was also intended to simplify tax legislation, provide legal certainty and be applied uniformly throughout the Reich.<sup>119</sup> In addition to simplification and standardisation measures, the reform serves to rebuild a permanent tax system and is intended to generate long-term economic growth to service the reparation obligations. Therefore, I classify the package of measures as exogenous (X), long-run performance (LR).

While Reich Finance Minister Schlieben had still been cautious when presenting the bills as to what extent social demands could be met, agreement was first reached on the "certainly shared by everyone's desire to take into account a relief of the broad masses".<sup>120</sup> Already on 29 May 1925 the *Gesetz zur Überleitung der*

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<sup>116</sup>RT-Bd. 385, p. 1464.

<sup>117</sup>RT-Bd. 385, p. 1467.

<sup>118</sup>RT-Bd. 385, p. 1468.

<sup>119</sup>RT-Bd. 385, p. 1468.

<sup>120</sup>RT-Bd. 385, p. 1469.

*Einkommensteuer und Körperschaftsteuer in das regelmäßige Veranlagungsverfahren*, short *Steuerüberleitungsgesetz*, was published, which was applied from 1 June 1925.<sup>121</sup> It included the increase of the tax-free wage amount from 720 to 960 RM per year. Further it included the reduction of the tax rate for the third and each further child by 2 per cent each instead of the previous 1 per cent. If the wage did not exceed 250 per month, i.e. 3000 RM per year, then the tax rate was already reduced by 2 per cent for the second minor child. The expected revenue loss takes into account both the reduction of the tax-free wage amount and the additional child reductions granted: “The government of the Reich has again considered the suggestions of the various parties in great detail. It has come to the conclusion that it is not possible to go beyond a tax-free amount of 80 RM per month and a reduction of 2 per cent for the second child only for incomes up to 3000 RM. If wage conditions are not particularly favourable, this alone will result in a loss of more than 500 million Reichsmarks compared to the present revenue. Given the uncertainty of the situation, an even greater loss cannot be justified.”<sup>122</sup> According to a sample calculation, the increase in the tax-free wage amount from the previous 60 to 80 RM per month alone accounts for a loss of revenue of 361.4 million RM per year.<sup>123</sup> This legislative change was intended to establish a clear tax system after the stabilisation of the currency. In addition to establishing a long-term regulatory framework for the tax system, social objectives were also pursued. I classify the measure as exogenous (X), long-run performance (LR).

Of the bills originally introduced jointly, a *Gesetz über die Aufwertung von Hypotheken und anderen Ansprüchen (Aufwertungsgesetz)* was already published on 16 July 1925, with retroactive effect from 15 July 1925.<sup>124</sup> Its purpose was to provide compensation for the devaluation of money to those harmed by inflation. This concerns the revaluation of mortgages, land charges, industrial bonds, mortgage bonds, bonds of cooperatives under public law and related corporations as entrepreneurs of economic enterprises, savings bank deposits, insurance claims and other claims.<sup>125</sup> Reich Minister of Justice Frenken comments on the draft of

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<sup>121</sup>RGBl. 1925 I, p. 75.

<sup>122</sup>RT-Bd. 401, Drucks. Nr. 934, p. 4.

<sup>123</sup>RT-Bd. 401, Drucks. Nr. 934, Anlage 2, pp. 42-43.

<sup>124</sup>RGBl. 1925 I, p. 117.

<sup>125</sup>RGBl. 1925 I, p. 117.

the *Aufwertungsgesetz* with reference to the government declaration of the Reich Chancellor on the question of revaluation. He emphasises the “understanding for the old savers” and speaks of “the justified wishes of those who have been damaged by the devaluation of money”, whom the Reich government wants to help “within the bounds of what is economically possible”. He describes the motivation as follows: “The Reich government is aware that the question of revaluation is neither a purely legal question nor a purely economic question. Rather, it assumes and is convinced that it is necessary to reconcile the striving for the highest justice with the responsibility for the economic continuity and the economic advancement of our fatherland. It is convinced that the revaluation question threatens to become a question of fate for the German people if all these aspects are not taken into account in its solution: Law and moral law, economic and social policy are equally to be taken into account”<sup>126</sup> The one-off tax to compensate for the devaluation of bonds (Obligations Tax) was set 20 million RM lower than in the previous year. “The revenue of the obligations tax is affected by the revaluation law. The revenue can only be estimated at 30 million Reichsmarks.” For 1925, the budget estimate had still been 50 million RM.<sup>127</sup> Since the justification focuses on the pursuit of justice, I classify the measure as exogenous (X), ideological (IL).

The individual legislative amendments of the reform package are discussed in the following. One concerned the wealth and inheritance tax,<sup>128</sup> which took effect retroactively as of 1 January 1925. Article I regulated the wealth tax. The prepayments for 1925 were to be made according to the wealth tax assessment for 1924. The final assessment followed the new Wealth Tax Act with a revised rate and a revaluation based on the *Reichsbewertungsgesetz*.<sup>129</sup> The explanatory memorandum to the *Reichsbewertungsgesetz* states: ‘Now that, as a result of the stabilisation of the currency, the economic situation has by and large stabilised, the time appears to have come for a new and definitive formulation of wealth tax law.’ The objectives of the draft are that the states and municipalities participate in the assessment for wealth tax and arrive at a uniform assessment of the same. “At a time when the simplification and cheapening of administration is one of the

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<sup>126</sup>RT-Bd. 385, pp. 1472-1473.

<sup>127</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 2-3.

<sup>128</sup>RGBl. 1925 I, p. 233.

<sup>129</sup>RGBl. 1925 I, p. 214.

most important tasks of the Reich and the Länder, it can no longer be justified for two authorities, which largely perform the same tasks, to work side by side.”<sup>130</sup> “The wealth tax was originally set at 500 million Reichsmarks for 1925. (...) Because of the reduction in the rate and the increase in the exemption limit on the one hand, and the presumed decline in total taxable assets under the pressure of the economic situation on the other, it is to be estimated at only 400 million Reichsmarks for 1926, even with four payment dates.”<sup>131</sup> Accordingly, a shortfall in wealth tax revenue of 100 million RM was assumed.

The changes to inheritance tax in Article II of the law consisted of a new tax scale with an expansion of the brackets, an increase in the tax rates and an expansion of the taxation of spousal inheritance. In the case of inheritance tax, as with wealth tax, the principles of the *Reichsbewertungsgesetz* were to be applied, but only insofar as they were in accordance with the inheritance tax law.<sup>132</sup> “In the case of inheritance tax, it has been assumed that a whole series of inheritance cases from 1925 will not be assessed until after the implementing regulations for the *Reichsbewertungsgesetz* have been enacted, i.e. in 1926, so that a certain amount of additional revenue can be expected for 1926.”<sup>133</sup> In fact, according to the 1926 budget, the estimate showed an additional revenue of 24 million RM compared to 1925. “Inheritance tax had previously been estimated at 36 million Reichsmarks. Since a whole series of inheritance cases from 1925 will not be assessed until after the implementation regulations for the *Reichsbewertungsgesetz* have been enacted, i.e. in 1926, a revenue of 60 million can be expected.”<sup>134</sup> Since the purpose of the measure is to standardise and cheapen inheritance tax collection, it would also be classified as exogenous (X), long-run performance (LR), regardless of its adoption within the context of the reform.

Another component of the reform was the *Gesetz zur Änderung der Verkehrssteuern und des Verfahrens*, which brought about changes particularly with regard to the capital transfer taxes, the supervisory board tax and the turnover tax.<sup>135</sup>

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<sup>130</sup>RT-Bd. 400, Drucks. Nr. 794/802, pp. 19-21.

<sup>131</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 2-3.

<sup>132</sup>RT-Bd. 400, Drucks. Nr. 794/802, pp. 11-12.

<sup>133</sup>Überblick über den Entwurf des Reichshaushaltsplans für das Rechnungsjahr 1926, p. 53.

<sup>134</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 2-3.

<sup>135</sup>RGBl. 1925 I, p. 241.

Article I amended the capital transfer taxes. In the case of the *Gesellschaftsteuer* (Company Tax), the regular tax rate was reduced from 5 to 4 per cent and the reduced rate from 2½ to 2 per cent. The estimate for 1925 was accordingly 4 million RM lower than in the previous year.<sup>136</sup> The rates for the *Wertpapiersteuer* (Securities Tax) were also reduced in part, which amounted to a reduction of an estimated 2 million RM compared to the previous year. The situation was similar with the *Börsenumsatzsteuer* (Stock Exchange Turnover Tax), whereby the reductions were mostly granted for stocks and shares. This resulted in an expected shortfall of 54 million RM.<sup>137</sup> The amendments to the company tax, securities tax and stock exchange turnover tax came into force on 1 September 1925. The supervisory board tax was abolished with retroactive effect from 1 January 1925 and instead supervisory board remunerations were taxed within the framework of the Corporation Tax Act.<sup>138</sup> This meant that the 8 million RM previously budgeted for capital transfer taxes were dropped, but were to be collected through the corporation tax.<sup>139</sup> “The profits subject to corporation tax therefore include the amounts used for the payment of the supervisory board emoluments. Since in the Capital Transfer Tax Act and in the Corporation Tax Act the tax rate is the same (20 per cent), nothing changes materially in the main matter.”<sup>140</sup>

Article II reduced the land transfer tax from 4 to 3 per cent as of 1 September 1925. “For the financial year 1925, according to the revenue figures now available, taking into account the return to normal economic conditions, the expected further revival of the property market and the gradual return of property values to those of the pre-war period, an increase in the total revenue to at least 160 million Reichsmarks can be expected if the previous tax rates are maintained. In spite of the reduction of the tax rate from 4 to 3 per cent provided for in the government bill (Art. 11 § 1 and 2) and the further intended elimination of the surcharges on the transfer of real estate to corporations and in view of the relief for the real estate market resulting from the intended tax reduction, the total revenue from real estate transfer tax plus surcharges for 1925 can be estimated at 150 million

<sup>136</sup>RT-Bd. 400, Drucks. Nr. 799, p. 13.

<sup>137</sup>RT-Bd. 400, Drucks. Nr. 799, p. 13.

<sup>138</sup>RGBl. 1925 I, p. 214.

<sup>139</sup>RT-Bd. 400, Drucks. Nr. 799, p. 13.

<sup>140</sup>RT-Bd. 400, Drucks. Nr. 794/802, p. 10.



Reichsmarks.”<sup>141</sup> The 1926 budget also assumes an estimated shortfall in land transfer tax revenue of 10 million RM.<sup>142</sup>

Article III also reduced the tax on bills of exchange to half with the entry into force of the provisions as of 1 September 1925. The revenue forecast reads: “The tax on bills of exchange was included in the estimate for 1924 at 65 million. (...) In view of the fact that the draft provides for a general halving of the tax rate (to 1 per cent) and a further tax reduction for export bills of exchange, the revenue for 1925 cannot be estimated at more than 50 million.”<sup>143</sup> The 1926 budget also shows a shortfall of 15 million RM.<sup>144</sup> “The bill on transfer taxes finally contains reductions in the capital transfer tax, the land transfer tax and the tax on bills of exchange which, after the cessation of inflationary phenomena, appear to be urgently necessary in order to free business transactions from inhibitions and, in particular, not to prevent reorganisations and mergers by means of taxation. In the area of procedure, in accordance with a frequently expressed wish, it is envisaged that the tax committees will once again participate in the assessments in their full composition.”<sup>145</sup>

Article IV reduced the rate of the general turnover tax from 1.5 to 1 per cent and the increased turnover tax, now called the producer and retailer tax, from 10 to 7.5 per cent. The revenue from the general turnover tax was estimated in the 1926 budget with a shortfall of 70 million RM compared to 1925, the increased turnover tax with a decrease of 10 million RM.<sup>146</sup> “In the case of the turnover tax, the reduction in tax rates from 1½ to 1 and from 10 to 7½ per cent, which has occurred since 1 October 1925, will have its full effect. Although an increase in revenue is expected in 1926, a decline in revenue totalling 80 million Reichsmarks is to be expected here.”<sup>147</sup> In a cabinet meeting, Reich Chancellor Luther had expressed his hope that a reduction in turnover tax would lead to a reduction in prices: “The general public would gain much more from a general reduction of

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<sup>141</sup>RT-Bd. 400, Drucks. Nr. 799, p. 14.

<sup>142</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 2-3.

<sup>143</sup>RT-Bd. 400, Drucks. Nr. 799, p. 14.

<sup>144</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 2-3.

<sup>145</sup>AdRk Luther I/II, Band 1 (1925), Dok. Nr. 7.

<sup>146</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 2-3.

<sup>147</sup>Überblick über den Entwurf des Reichshaushaltsplans für das Rechnungsjahr 1926, p. 53.

the turnover tax.<sup>148</sup> (...) He certainly hoped that a general reduction in turnover tax would lower prices.”<sup>149</sup>

The changes in the capital transfer taxes are motivated by the fact that capital destroyed by inflation is to be regained through tax concessions on the raising and formation of capital by companies. Favourable capital formation is thus intended to generate long-term economic growth. The turnover tax cut could also be perceived as a supply stimulus, since it aims at a general price reduction by lowering the prime costs. Overall, I classify all the measures in this Act as exogenous (X), long-run performance (LR).

The reform also included a *Gesetz über Erhöhung der Bier- und Tabaksteuer*.<sup>150</sup> The increased tax rates for beer were regulated in Article I. These were originally to apply from 1 April 1926, but their introduction was postponed until 1 January 1927 on the basis of Article VI § 25 of the *Steuermilderungsgesetz* of 31 March 1926.<sup>151</sup> The corresponding financial scope of the tax change is accordingly not discussed until the following budget.

Article II of the law deals with the increase in tobacco tax, which was already effective from 1 October 1925. In particular, it was about the increase of the revenue stamp tax for fine-cut smoking tobacco and the tax on cigarette paper. The revenue from the tobacco tax was projected to be 75 million RM higher in 1926 compared to a year earlier due to the increase in taxation. “The additional revenue is due to the effect of the change in taxation made by Article II of the Law on the Increase of Beer and Tobacco Taxes of 10 August 1925 - Reichsgesetzbl. I p. 244.”<sup>152</sup> Reich Finance Minister Schlieben explained the motive behind this law: “The only law which has the purpose of increasing the revenue of the Reich, the law on the increase of the tobacco and beer tax, is, as I believe I have demonstrated, urgently necessary if we are to arrive at proper budgetary management. The figures I gave you at the beginning prove this. So here, too, there is a need for early adoption if we are not to have our revenues from this

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<sup>148</sup>Compared to only exempting food from turnover tax.

<sup>149</sup>BA R 43-I/2411, Blatt 152.

<sup>150</sup>RGBL. 1925 I, p. 244.

<sup>151</sup>RGBL. 1926 I, p. 188.

<sup>152</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, p. 4-5.

law, which are not very high in the first year anyway, reduced too much.”<sup>153</sup> State Secretary Popitz was also of the opinion that the tax increase in tobacco tax was unavoidable, since the additional revenue would already be needed for 1925 in order to balance the budget and for the following financial years to meet the obligations of the German Reich from the London Agreement.<sup>154</sup> Ultimately, the shortfall resulting from tax reductions was to be made up, on the one hand, by increasing beer and tobacco taxes and, on the other, by raising tax revenues driven by aspired economic growth. In this way, the reparation debt was to become more sustainable.<sup>155</sup> In isolation, the beer and tobacco tax increase could be seen as endogenous (N), deficit reduction (DR), but as part of a bigger tax reform offsetting measures supposed to stimulate long-run economic growth, it is classified as exogenous (X), long-run performance (LR).

The last law to be published was a *Gesetz zur Änderung der Verbrauchsteuern*, which in particular contained changes that had a material effect on the wine tax, salt tax and match tax.<sup>156</sup>

The provisions on the wine tax (Article I) became effective as of 1 August 1925 and brought about a tax cut for wineries. The draft law on the wine tax already stated that the estimate for 1925 had been 48 million RM, but at least double the revenue was expected for 1926.<sup>157</sup> In fact, the 1926 budget contained a budget estimate for 1925 of 90 million RM. According to the text of the law § 4, a change was made which was then reflected in the estimate for 1926: “For the period up to 30 September 1927, the tax rates of subsection 1 shall be reduced by one quarter.” Regarding the estimate for 1926, it says: “Since the tax has been reduced by  $\frac{1}{4}$  by the law amending excise duties (...), the revenue for the 1926 financial year is estimated at 75 million.”<sup>158</sup> According to this, it is assumed that there will be a decrease in wine tax of 15 million RM in response to the tax change. This tax relief addressed a distress in a single industry, the winegrowing sector. The Reich Minister for Food and Agriculture described this state of emergency and found

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<sup>153</sup>RT-Bd. 385, p. 1469.

<sup>154</sup>RT-Bd. 404, Drucks. Nr. 1261, p. 9.

<sup>155</sup>RT-Bd. 385, pp. 1467-1469.

<sup>156</sup>RGBl. 1925 I, p. 248.

<sup>157</sup>BA R 43-I/2396.

<sup>158</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, p. 4-5.

approval in the cabinet for relief measures: “The situation of the winegrowers was downright desperate. Somehow the winegrowers had to be helped. (...) The Reich Minister for the Occupied Territories also emphasised the unusual plight of the winegrowers.”<sup>159</sup> According to the law, one third of the revenues from the wine tax accruing between 1 July 1925 and 30 June 1927 was to be used in support of the vintners.<sup>160</sup> Although this single measure to support vintners could be classified as either supply stimulus (SS) or spending-driven (SD), as part of the overall tax reform it is categorised as exogenous (X), long-run performance (LR).

In Article II, the match tax was revised as of 1 October 1925.<sup>161</sup> Through this law, the tax liability was no longer assessed according to the value of the goods to be taxed, but by their quantity. It was hoped that this would lead to a “technical simplification and greater security for the tax revenue”.<sup>162</sup> Under the proposed tax rates of the draft law, the tax burden and thus the tax revenue was expected to remain the same at 10.8 million RM.<sup>163</sup> In the 1926 budget, however, the estimate for 1925 is 10 million RM, whereas for 1926 11.4 million RM are expected. I therefore assign an additional tax load of 1.4 million RM to the increase in the match tax.<sup>164</sup>

Article III of the law amended the salt tax, the changes to which came also into force on 1 October 1925.<sup>165</sup> The tax rate was increased from 0.74 RM to 3.00 RM per quintal.<sup>166</sup> For 1925 the revenue estimate was 9 million RM while for 1926 it was 17.5 million RM. “The additional revenue is due to a change in the Salt Tax Act.”<sup>167</sup> Thus, according to the estimate for 1926, an additional revenue of 8.5 million RM was to be expected based on the amendment of the salt tax. In general, the provisions of Articles II to IV were “mainly intended to change the form of taxation currently applicable to these three excise taxes.”<sup>168</sup> Hence, taken

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<sup>159</sup> AdRk Luther, Band I/II (1926), Dok. Nr. 318.

<sup>160</sup> RGBl. 1925 I, p. 250.

<sup>161</sup> RGBl. 1925 I, p. 250.

<sup>162</sup> BA R 43-I/2396.

<sup>163</sup> RT-Bd. 404, Drucks. Nr. 1260, p. 9.

<sup>164</sup> Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 4-5.

<sup>165</sup> RGBl. 1925 I, p. 250.

<sup>166</sup> RT-Bd. 401, Drucks. Nr. 968, p. 10.

<sup>167</sup> Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 4-5.

<sup>168</sup> RT-Bd. 401, Drucks. Nr. 968, p. 9.

separately, these measures are to be classified equivalent to the entire reform as exogenous (X), long-run performance (LR).

On 17 August 1925, a *Gesetz über Zolländerungen* followed, the provisions of which were officially introduced as of 1 September 1925.<sup>169</sup> It included the reintroduction of the customs tariff of 1902 with multiple changes in customs rates, in particular the reintroduction of grain and meat customs duties with reduced rates. Reich Finance Minister Schlieben justified the reintroduction of these customs tariffs as follows: “It is the duty and the task of the Reich government to meet the following two important objectives by reintroducing agricultural customs duties: firstly, to create the necessary equipment in the form of negotiating tariffs which we need in order to be able to conclude customs agreements conducive to our exports with other countries, namely with countries of important agricultural production; secondly, however, and more importantly, to secure for agriculture, as such an exceedingly important significant factor of national labour, that protection which for reasons of parity must be granted to it in relation to industrial tariffs, if a dangerous disturbance of the balance is not to be the consequence.”<sup>170</sup> Reich Chancellor Dr. Luther took the view that even if the customs legislation was of a provisional nature, its implementation was urgently necessary in order to reduce the “import and export prohibitions” stemming from the war period and to advance negotiations on the “conclusion of trade agreements”. The aim was to “increase export opportunities”, “create employment opportunities” and “intensify agriculture” through new loans. The latter would only be possible if, in addition to industrial tariffs on operating materials, tariffs were also levied on agricultural products. What effects this would have on the prices of these products, however, could not be predicted. So that consumers would not have to suffer, the government of the Reich had agreed to the reduction of the turnover tax to 1 per cent from the fourth quarter of 1925.<sup>171</sup> The revenue estimate for customs duties assumes a plus over the previous year. “A higher revenue is expected throughout in the case of pledged customs duties and excise duties. In the case of customs duties, it is based on the introduction of new customs duties

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<sup>169</sup>RGBl. 1925 I, p. 261.

<sup>170</sup>RT-Bd. 386, p. 2574.

<sup>171</sup>RT-Bd. 387, pp. 4254-4257.

(especially grain, livestock, meat) and the increase in existing customs duties by the Law on Customs Amendments of 17 August 1925 - Reichsgesetzbl. I p. 261 -.”<sup>172</sup> According to the 1926 Reich Budget, 80 million RM “more as a result of an increase in imports, taking into account the introduction of new and increase in existing customs duties” had been assumed. “Pursuant to § 7 of the Law on Customs Amendments (...), out of the amounts of pledged duties transferred back by the Commissioner for Pledged Revenue, 40 million Reichsmarks are to be allocated annually from 1 April 1926 until 31 March 1935 for purposes of invalidity insurance and from 1 April 1926 until 31 March 1941 10 million Reichsmarks for purposes of invalidity insurance. 10 million Reichsmark for the granting of welfare pensions to institutions and bodies of independent and ecclesiastical (Article 137 of the Reich Constitution) welfare work which fulfil tasks of public welfare work, as well as institutions and bodies for the promotion of scientific education and research (cf. Chap. XVII 11 and 10 of the continuing expenditure of the ordinary budget).”<sup>173</sup> I classify the whole measure as exogenous (X) long-run performance (LR) as, on the one hand, it is also part of the tax reform of 10 August 1925 and, on the other hand, the measure itself aims at increasing competitiveness and productivity in agriculture. Due to the utilisation of the customs revenue derived from § 7, one could in principle also classify the measure as endogenous (N), spending-driven (SD).

### Individual tax changes

The *Gesetz über die Senkung der Lohnsteuer* of 19 December 1925 lowered the wage tax as of 1 January 1926.<sup>174</sup> The reduction of the wage tax was achieved by increasing the tax-free wage amounts from 960 to 1200 RM annually and by increasing the family deductions for the 4th and subsequent children. It was based on the so-called Lex Brüning, the *Gesetz über Beschränkung der Einnahmen aus der Lohnsteuer* of 3 September 1925, which restricted the revenue from wage tax: “If the income from wage tax exceeds the amount of 600 million Reichsmark in the period from 1 October 1925 to 31 March 1926 or later in a period of two

<sup>172</sup>Überblick über den Entwurf des Reichshaushaltsplans für das Rechnungsjahr 1926, p. 53.

<sup>173</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1926, pp. 4-5.

<sup>174</sup>RGBl. 1925 I, p. 469.

consecutive calendar quarters, the Reich government shall submit a bill which brings about an increase in the deductions for large families and in the tax-free amount.”<sup>175</sup> The explanatory memorandum to the wage tax amendment states: “Although the conditions for the application of the law of 3 September 1925 are not yet present, because it can only become effective for the period after 1 April 1926, the Reich Government nevertheless believes that it should already fulfil its promise reproduced above and propose a reduction in the wage tax. At the top of the list of considerations, however, must once again be that the wage tax must under all circumstances bring in 100 million Reichsmarks per month, 1200 million Reichsmarks per year.”<sup>176</sup> On the other hand, if the wage tax revenue exceeded 1200 million RM, the deductions for large families and the tax-free amount were to be raised accordingly. “The reduction to be expected, according to the revenue calculation (Annex)<sup>177</sup>, amounts to 237 million Reichsmarks, so that, assuming a previous revenue of 1440 million Reichsmarks, about 1203 million Reichsmarks are to be expected in the future.”<sup>178</sup> Since the tax laws of 10 August 1925 mainly reduced property and capital transfer taxes, the restriction of the wage tax seems to have been intended as a social compensation. I therefore classify the measure as ideological (IL), exogenous (X).

On 17 January 1926, a *Gesetz zur Änderung der Verordnung über Erwerblosenfürsorge* with retroactive effect from 1 January 1926 was enacted.<sup>179</sup> By this law, salaried employees with an income of more than 2700 RM annually were included in the unemployment benefit scheme. The Reich Minister of Labour had pleaded for the inclusion of the better paid salaried employees up to the income limit of the salaried employees’ insurance in the unemployment welfare scheme. “Only in this way will it probably be possible to avoid other far-reaching applications (30 million from Reich funds for unemployed white-collar workers).”<sup>180</sup> Until this change in the law, only employees who were subject to compulsory health insurance and had an annual salary of no more than 2700 RM were en-

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<sup>175</sup>RGBl. 1925 I, p. 331.

<sup>176</sup>RT-Bd. 405, Drucks. Nr. 1629, p. 2.

<sup>177</sup>RT-Bd. 405, Drucks. Nr. 1629, Anlage, p. 5.

<sup>178</sup>RT-Bd. 405, Drucks. Nr. 1629, p. 3.

<sup>179</sup>RGBl. 1926 I, p. 89.

<sup>180</sup>BA R1501/101384, Blatt 42.

titled to receive unemployment benefits. However, the situation on the labour market for white-collar workers had worsened due to staff reductions caused by rationalisation and made it necessary to include the group of salaried employees with an annual income of more than 2700 RM in the unemployment benefit scheme. This had already been demanded several times, but had not yet been implemented due to difficulties in collecting contributions. On the basis of the law, the monthly income from contributions was estimated at 2.4 million RM, i.e. 28.8 million RM additional receipts per year.<sup>181</sup> Since the desire to expand the circle of beneficiaries of unemployment welfare motivated the introduction of compulsory contributions, I classify the measure as endogenous (N), spending-driven (SD).

With the introduction of a uniform contribution rate for unemployment benefits on 25 January 1926, a further change concerning social security legislation followed. On that day, the administrative board of the *Reichsamt für Arbeitsvermittlung* decided to set the welfare contributions at a uniform rate of 3 per cent throughout the Reich as of 1 February 1926. At the same time, they set 1 per cent of the basic wage as the Reich share.<sup>182</sup> The legal basis for the determination of contributions by the administrative board had been laid down by the *Sechste Ausführungsverordnung zur Verordnung über Erwerbslosenfürsorge* of 18 January 1926,<sup>183</sup> according to which contributions to unemployment welfare were split into a district share and a Reich share. The former was levied by the districts of the regional employment offices, while the national share was paid to the Reichsausgleichskasse. The Reichsausgleichskasse handled transfers between those districts that were little affected by unemployment to those with high unemployment and thus formed the basis for a risk-bearing community.<sup>184</sup>

Originally, the Reich share was intended to be set at ½ per cent, if necessary, also at 1 per cent, but in total, Reich share and district share together were not to exceed 3 per cent, so that the district share could still be 2½ or 2 per cent. “With a Reich share of ½ per cent, about 8 million marks a month would flow into the Reichsausgleichskasse in times of normal economic activity. Incidentally, the Reich share is also to be levied in those districts in which no district share is levied in

<sup>181</sup>RT-Bd. 406, Drucks. Nr. 1744, pp. 1-2; BA R1501/101384, Blatt 107.

<sup>182</sup>RABl. 1926 Amtlicher Teil, p. 29.

<sup>183</sup>RGBl. 1926 I, p. 92.

<sup>184</sup>See also Egger (1929, pp. 252-253).



the absence of unemployed persons, because these districts without unemployment are most likely to be in a position to contribute to the Reichsausgleichskasse. The amount of the Reich's share is primarily determined by the sum of the deficits which are registered with the Reichsausgleichskasse or which are to be expected in view of the development of the labour market. If the reserve prescribed in Article 8 of the Implementing Ordinance is available at the Reichsausgleichskasse, the administrative board, two-thirds of whose members are representatives of employers and employees, has a justified interest in a low Reich share in order to protect the economic circles it represents from any unnecessary financial burden. The district share shall in principle be fixed according to the needs arising in the district of a state employment office.”<sup>185</sup>

Since the Reich share of contributions was based on the Reich-wide need for unemployment benefits, its expected revenue is assumed to be the increase between the non-uniform contribution rates in the Reich and the now introduced Reich-uniform contribution rate of 3 per cent. Compared to the above source, a one per cent Reich contribution would generate revenue of 16 million RM per month. The introduction of a uniform contribution rate for unemployment benefits is thus projected to generate an additional revenue of 192 million RM annually.<sup>186</sup> Given that the measure was intended to put unemployment benefits on a more secure and broader funding basis in order to cover expenses, it is classified as deficit reduction (DR), endogenous (N).

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<sup>185</sup>Syrup (1926, p. 79)

<sup>186</sup>The assumption that the introduction of the nationwide contribution rate amounts to an increase of only 1 per cent possibly underestimates the true increase by up to half a per cent. On 12 December 1925, the Reichstag member Schwarzer states the following about the present level of contributions: “The average contributions in the Reich at present amount to 1.5 per cent, and it is to be expected that these contributions will very soon reach the maximum that has been prescribed up to now of 3 per cent of the wage. According to the documents given to us by the Reich Ministry of Labour, the total income from these contributions should amount to 36.6 million marks.”, RT-Bd. 388, p. 4854. With regard to the different levels of contributions to unemployment benefits in the states, see the bill on the introduction of the unemployment insurance, RT-Bd. 413, Drucks. Nr. 2885, pp. 52-56.

**Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *exogenous* (X), *long-run economic performance* (LR) classification.

## 1926/27 Budget: 10 February 1926

*Reich Minister of Finance:* Peter Reinhold (DDP);

*Chancellor of the German Reich:* Hans Luther (independent)

### Context

In the course of 1925, unemployment increased steadily and passed the 10 per cent mark in the first quarter of 1926. Bankruptcy petitions had also more than doubled to 7340 within a year compared to the first quarter of 1925,<sup>187</sup> while private investment dropped by 19.1 per cent and GDP declined by 3.9 per cent in the same period. The figures indicate an economic crisis at the turn of the year 1925/26.<sup>188</sup> The budget deficit in the 1925/26 financial year was 0.5 per cent of GDP.<sup>189</sup> Over the year 1925 the Bank rate almost remained constant until early 1926 when it was lowered stepwise to 8 and 7 per cent on 12 January and 27 March 1926. While inflation had fallen from 13 per cent in the third quarter of 1925 to 1.8 per cent in the first quarter of 1926, the monetary base grew by 12.7 per cent during the fiscal year.<sup>190</sup> On 26 October 1925, the three ministers nominated by the DNVP, including Reich Finance Minister Otto von Schlieben, resigned from Luther's cabinet in protest over the Locarno Treaties. Until a new government was formed, Reich Chancellor Luther was entrusted with the official business of the Finance Department.<sup>191</sup> It was not until the formation of a new cabinet on 20 January 1926 that a new Reich Minister of Finance, Peter Reinhold (DDP), was called upon.

### Overall budget objectives

The Reich Budget for the 1926 financial year was introduced to Parliament on 10 February 1926 by Reich Finance Minister Peter Reinhold. With its adoption

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<sup>187</sup>Wagemann (1935, p. 157).

<sup>188</sup>Based on Ritschl (2002b), series C.2.3 and C.2.6.

<sup>189</sup>Based on Ritschl (2002b), series C.2.4.

<sup>190</sup>Based on Ritschl (2002b), series C.2.5 and C.2.11.

<sup>191</sup>AdRk Luther, Band I/II (1926), Dok. Nr. 208, 209.

on 31 March 1926, it is the only budget in the Weimar Republic that was passed before the beginning of the impending fiscal year.<sup>192</sup>

In his budget speech, Reinhold noted that the budget had been prepared at a time when “the full impact of the economic crisis, which has now hit our people with full force, could not yet be overlooked”. He recognises the “shortage of capital in our economy, which has led to the credit crisis that has gradually degenerated into a crisis of confidence” as the cross-sectoral cause of the recession. In addition, “the overburdening of our economy with public charges of all kinds has contributed in no small measure to the aggravation of the crisis.” The overcoming of this economic crisis was to be achieved by “examining with the greatest rigour the relationship between the capacity of the economy, as well as of the individual taxpayer, and the total state requirement of the public sector in Germany, in order to find the necessary balance between tax need and tax power” and “to accelerate the recovery process by easing unbearable burdens”. This should be achieved “by reducing taxes that raise production costs and thus inhibit production”. The proposed measures, including in particular a reduction in turnover tax, were “for the purpose of bringing down the price level and overcoming our economic crisis”.<sup>193</sup>

### Individual tax changes

The announced tax cut was published on 31 March 1926 as the *Gesetz über Steuermilderungen zur Erleichterung der Wirtschaftslage*, the so-called *Steuermilderungsgesetz*.<sup>194</sup>

The provisions led to tax relief in several tax areas. Article II governed the turnover tax. The general turnover tax was reduced from 1 to 0.75 per cent as of 1 April 1926, and the increased turnover tax, also called manufacturer’s and retailer’s tax or luxury tax, was abolished altogether. “It seems to me quite wrong for our people, who at the moment have to bear infinitely heavy burdens, if we now add to the inevitable burdens of our economy those which we can rightly distribute to later times and generations. Therefore, after a hard struggle, I have introduced my tax reduction programme (...) and would like to point out that

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<sup>192</sup>RGBl. 1926 II, p. 187.

<sup>193</sup>RT-Bd. 388, pp. 5402-5404.

<sup>194</sup>RGBl. 1926 I, p. 185.

only this programme has eliminated the most dangerous and senseless tax, the luxury tax and thus the taxation of German quality work. If many industries previously affected by the luxury tax are now noticing the invigorating effect of the abolition of this tax, that is the best justification for me. (...) The reduction of the turnover tax was part of my programme.”<sup>195</sup> Particularly with regard to the luxury tax, Reinhold was of the opinion “that only a complete abolition of this luxury tax would serve the goal that the Reich government is pursuing with this abolition, namely to create a free path for German quality work and to bring it sales opportunities both domestically and on the world market”.<sup>196</sup>

Article VI of the law postponed the increase in beer tax rates announced on 10 August 1925 from 1 April 1926 to 1 January 1927. “In this financial year, however, the increase in tax rates of about 30 per cent introduced by the Law on the Increase of Beer and Tobacco Taxes of 10 August 1925 (Reichsgesetzblatt I p. 244), which, according to Article VI of the Law on Tax Mitigations for the Relief of the Economic Situation of 31 March 1926 (Reichsgesetzblatt I p. 185), will come into effect on 1 January 1927, will have its full effect. A decline in consumption as a result of the increased tax rates is not to be expected. For the 1927 fiscal year, therefore, revenue is expected to increase by 30 per cent, i.e. 335 million Reichsmarks.”<sup>197</sup> This corresponds to an increase in tax revenue of 100 million RM due to the change in rates.<sup>198</sup>

Article VII of the *Steuerermilderungsgesetz* abolished the wine tax and Article IX the salt tax as of 1 April 1926, while Article VIII reintroduced the sparkling wine tax as of 1 July 1926. Amendments to the budget were requested on the basis of the adopted outlined law.<sup>199</sup> “We must now draw the conclusions for the present budgets from the legislation just passed.” These modifications were adopted by majority vote.<sup>200</sup> The shortfalls were estimated at 276 million RM for the general turnover tax, 92 million RM for the manufacturer’s and retailer’s tax, 50 million RM for the wine tax and 15.5 million RM for the salt tax. For the

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<sup>195</sup>AdRk Marx III/IV, Band 1 (1927), Dok. Nr. 76.

<sup>196</sup>RT-Bd. 389, p. 6035.

<sup>197</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1927, p. 23.

<sup>198</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1927, pp. 4-5.

<sup>199</sup>RT-Bd. 390, p. 6783.

<sup>200</sup>RT-Bd. 390, pp. 6855-6856; Bd. 407, Drucks. 2184.

sparkling wine tax, on the other hand, an additional revenue of 4 million RM was expected.<sup>201</sup>

Finance Minister Reinhold considered the “tax reduction programme”, in addition to “savings measures”, necessary to recover the economy and in the same context described the “Tax Mitigation Law” as an “emergency measure” on the path to this goal.<sup>202</sup> Hence, I classify the measures from the Tax Mitigation Law as endogenous (N), supply stimulus (SS).

On 15 May 1926 a *Gesetz zur Änderung des Kraftfahrzeugsteuergesetzes* was promulgated, which became effective on 15 June 1926 and amended the motor vehicle tax.<sup>203</sup> It included a sharp increase in the tax rates and the imposition of a surcharge of 25 per cent. The projected additional revenue arising from the tax increase amounted to around 52 million RM.<sup>204</sup> The decisive reason for the tax hike was the higher utilisation of the roads due to the increase in motor vehicle traffic and the associated increased costs for road construction and maintenance, which had to be borne by the states.<sup>205</sup> Reich Finance Minister Reinhold had already announced this measure in his budget speech: “I would like to conclude my tax considerations by pointing to a draft of a motor vehicle tax law which you will receive shortly and which is intended to ensure that those responsible for road maintenance are put in a position to take care of the restoration and modernisation of the German road network.”<sup>206</sup> And the rapporteur of the SPD also remarked at the 198th session of the Reichstag on 10 May 1926 on the deliberations of the committee on the amendment of the motor vehicle tax law: “In the debate on the deliberation of the law on the amendment of the motor vehicle tax law, there was agreement in the committee that aid for road construction and maintenance must be created as quickly and thoroughly as possible. The condition of our roads is becoming more and more untenable, and urgent remedial action must be taken.” It would be “hardly possible to do without a stronger use of motor vehicle taxes, all the more so as the owners of motor vehicles have first and foremost an interest

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<sup>201</sup>RT-Bd. 407, Drucks. Nr. 2184; Drucks. Nr. 2210, p. 7.

<sup>202</sup>RT-Bd. 389, pp. 6036, 6038.

<sup>203</sup>RGBl. 1926 I, p. 223.

<sup>204</sup>RT-Bd. 407, Drucks. Nr. 2156, pp. 13, 25.

<sup>205</sup>RT-Bd. 407, Drucks. Nr. 2156, pp. 2-3.

<sup>206</sup>RT-Bd. 388, p. 5408.

in good roads. Therefore, an increase in motor vehicle tax must be expected under all circumstances.” In addition, it would be “a fairer distribution of the tax burden” if car owners were asked to pay more, so that a further increase in real taxes could be postponed.<sup>207</sup> Since the purpose of the measure was primarily to generate additional revenue for road construction and maintenance, I classify it as endogenous (N), spending-driven (SD).

A *Verordnung über Zolländerungen* was issued on 30 July 1926 and increased tariffs on some agricultural products from 1 August 1926.<sup>208</sup> The rates for some grain duties and flour were raised between 2 and 4 RM per quintal by means of this decree. “The Reich Chancellor stated that two viewpoints were decisive for an increase in tariffs: a) the conditions of agriculture, b) the trade treaty negotiations with Poland.” He pleaded for tariffs to be set at a level that would provide “sufficient opportunities for negotiations with Poland and other countries”. The Trade Policy Committee of the Foreign Office stated that the increased rates had been set for “domestic economic and domestic policy reasons”, “with the aim of strengthening the domestic market and consumption”. Since German agriculture was of the opinion that there was too little tariff protection for such products as fruit, vegetables, and the like, the intention was to compensate for its main products as milk, cereals, meat, potatoes, etc. In addition, the rates would provide leeway in trade treaty negotiations with interested countries. “As far as the tariff rates for grain are concerned, Germany’s trade treaty position is stronger than before the war in that the two countries mainly interested here, the Austro-Hungarian Monarchy and Russia, can no longer act as negotiating opponents in tariff negotiations, or at least no longer with the same weight as before. Grain tariffs could therefore now be set more according to domestic political and domestic economic considerations than before.”<sup>209</sup> The additional revenue estimate for customs duties amounted to 310 million RM for the financial year 1927 compared to 1926. “Even though in the months of June and July 1926 a considerable advance supply of grain, in view of the increase in customs duties which came into force on 1 August 1926 and the unfavourable crop failure expected in individual

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<sup>207</sup>RT-Bd. 390, p. 7114.

<sup>208</sup>RGBL. 1926 I, p. 428.

<sup>209</sup>BA R-43 I/2419, Blatt 4, 8-9.

areas of Germany, produced only a temporary additional revenue in grain customs duties, the other customs revenues have also experienced such an increase since the month of June 1926 compared to the previous months, (...)”. Of the amounts of pledged duties transferred back by the Commissioner of Controlled Revenues under § 7 of the Law on Customs Amendments of 17 August 1925,<sup>210</sup> 40 million RM annually were to be used for the fiscal years 1926/27 to 1934/35 for invalidity insurance and 10 million RM up to the fiscal year 1940/41 for the granting of welfare pensions.<sup>211</sup> Since the change in tariffs was intended to strengthen bargaining power in trade contracts, I classify the measure as exogenous (X), external (ET). However, the protective tariffs, which serve to increase the productivity of the domestic agriculture, could also be classified as exogenous (X), long-run performance (LR).

#### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *supply stimulus* (SS) classification.

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<sup>210</sup>RGBl. 1925 I, p. 261.

<sup>211</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1927, pp. 4-5, 22-23.



## 1927/28 Budget: 16 February 1927

*Reich Minister of Finance:* Heinrich Köhler (Zentrum);

*Chancellor of the German Reich:* Wilhelm Marx (Zentrum)

### Context

The economic crisis 1925/26 had reached its trough in the 2nd quarter of 1926 while year-on-year growth rates recorded an expansion of economic activity by 6.7 per cent in the first quarter 1927.<sup>212</sup> In the same period, investment increased by 48.1 and consumption by 7.4 per cent.<sup>213</sup> The rise in the unemployment rate plateaued at 12 per cent in mid-1926 and decreased to 9 per cent in the first quarter of 1927 with about 1.7 million unemployed. The budget deficit in the 1926/27 fiscal year remained at the previous year's level of around 0.5 per cent of GDP.<sup>214</sup> The Reichsbank's course of cutting the bank rate continued in 1926 with a reduction to 6.5 on 7 May and to 6 per cent on 6 July until it bottomed out at 5 per cent on 11 January 1927. The disparity in the growth rates of prices and the money stock converged from the beginning of 1927. Money supply growth in the spring of 1927 was 2.7 per cent, inflation 3.5 per cent.<sup>215</sup>

Following the enactment of the *Zweite Verordnung über die deutschen Flaggen*, initiated by Luther's government, which stipulated that "at non-European places and at such European places which are called at by maritime merchant ships",<sup>216</sup> the black-white-red merchant flag should be hoisted at diplomatic missions in addition to the black-red-gold Reich flag, led to the voluntary resignation of the cabinet on 12 May 1926 after disapproval by the Reichstag. As early as 17 May 1926, the coalition of Zentrum, DDP, DVP and BVP, now under the newly appointed Reich Chancellor Wilhelm Marx, reconvened and all ministers of the previous cabinet were reappointed to their posts. The third Marx cabinet served until the SPD initiated a successful vote of no confidence due to secret armament activities by the Reichswehr, and was replaced by the fourth Marx cabinet on 29

<sup>212</sup>Based on Ritschl (2002b), series C.2.3.

<sup>213</sup>Based on Ritschl (2002b), series C.2.6 and C.2.1.

<sup>214</sup>Based on Ritschl (2002b), series C.2.4.

<sup>215</sup>Based on Ritschl (2002b), series C.2.11 and C.2.5.

<sup>216</sup>RGBl. 1926 I, p. 217.

January 1927. The previous coalition was joined again by the DNVP, which had left since the dispute over the Locarno Treaties. The Ministry of Finance was filled by former Baden Finance Minister Heinrich Köhler from the Zentrum.

### Overall budget objectives

On 16 February 1927, Heinrich Köhler, who had just been appointed Reich Minister of Finance, presented the budget for the imminent financial year 1927. The Reich budget was passed by the Reichstag on 6 April and the corresponding law was issued on 14 April 1927.<sup>217</sup>

In his speech, the Reich Finance Minister Köhler first of all explained that due to his appointment at short notice, no more changes could have been made to the Reich budget, which had still been drawn up by the previous government, for the financial year 1927/28. With reference to the previous budget, he remarked: “We are thus taking leave of a budget which, through the use of the reserves of earlier years and in view of the reparation obligations which have not yet taken full effect, has had favourable effects also in the economic field.”<sup>218</sup> This stimulating effect was attributed in particular to the tax cuts of August 1925 and March 1926.

According to Köhler, the economic crisis had reached its peak in the first half of 1926 and an economic revival had taken place as a result of the English miners’ strike and the influx of foreign capital. Domestic capital formation was also said to have improved as the interest rate had fallen, although this was not yet sufficient to meet “the constant need to expand the production apparatus and to meet the ever-increasing payments arising from reparation obligations”.<sup>219</sup> These partly transitory positive economic effects, such as the English miners’ strike, the influx of foreign capital and an expansive monetary policy, were countered by the previous year’s weak agricultural harvest and the resulting “inhibition of domestic purchasing power”<sup>220</sup> and a still high number of unemployed, as the Reich Minister of Finance argued.<sup>221</sup>

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<sup>217</sup>RGBl. 1927 II, p. 201.

<sup>218</sup>RT-Bd. 392, p. 9006.

<sup>219</sup>RT-Bd. 392, p. 9007.

<sup>220</sup>RT-Bd. 392, p. 9007.

<sup>221</sup>RT-Bd. 392, pp. 9007-9008.

Against the background of the slowly recovering national economy, “first and foremost, an extremely careful treatment of tax sources, not a fiscal but a financial and tax policy guided by economic and social aspects”<sup>222</sup> was appropriate. In view of the economic situation, an increase in the tax burden was to be avoided by all means and one had to “absolutely prepare to get by with what we have, even if we had to postpone and restrict desirable and perhaps in itself expedient expenditure needs.”<sup>223</sup> Rather, given the fiscal leeway, the new Reich Finance Minister Köhler wanted to continue with the tax cuts begun by the previous governments, taking into account first of all consumption taxes that burden necessary needs. Specifically, he took up the wish to reduce the sugar tax.<sup>224</sup>

### **Introduction of unemployment insurance of 16 July 1927**

With the *Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung* of 16 July 1927, the *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung (RfAA)* became the agency for public employment placement and unemployment insurance as of 1 October 1927.<sup>225</sup> However, at the time of its introduction, unemployment insurance, with a contribution rate of “3 per cent of the relevant wage” (§ 161, p. 206), corresponded to the former unemployment welfare scheme, which it replaced. In the newly created insurance scheme, the insured acquired clear legal entitlements to support payments with their contributions compared to the former unemployment welfare scheme.

Reich Labour Minister Dr. Brauns stated the following in the first deliberation of the Reichstag on the social motivation for the introduction of unemployment insurance: “Unemployment insurance is certainly not a means to eliminate unemployment. However, its social and economic importance must not be underestimated. It protects the unemployed and thus all workers from social impoverishment, in particular by adapting support more to earnings than the welfare system was able to do at all. At the same time, it preserves at least part of the purchasing power of the unemployed in the economy, a point of view which is not

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<sup>222</sup>RT-Bd. 392, p. 9008.

<sup>223</sup>RT-Bd. 392, pp. 9008.

<sup>224</sup>RT-Bd. 392, pp. 9008.

<sup>225</sup>RGBl. 1927 I, p. 187.

always sufficiently appreciated. It preserves the labour power of so many thousands for the national community and thus the commodity on which the future of Germany depends. And finally it adds an important, hitherto missing link to the entire social legislation and is thus a further step forward on the way to social law, the complete realisation of which we all ardently desire.”<sup>226</sup>

The draft law attempts an estimate of the receipts from contributions, referring to the former unemployment benefit scheme: “The uniform Reich contribution, which could most clearly demonstrate the receipts from contributions, has only been in force since 1 February 1926. It also did not have its full effect until months after its introduction. Therefore, the partial results from the first reporting year cannot be dispensed with as a point of reference for estimating the contribution income.”<sup>227</sup> The contribution receipts of the unemployment welfare scheme between June and September 1926 are reprinted in Table 3.3 and amounted to an average of 48.5 million RM per month. “According to this, the contribution revenues in the Reich seem to have reached their target level only in the last few months. Since more than 1.5 million unemployed people were supported during this period, it can be counted on in the future in a depressed situation.”<sup>228</sup>

Compared to the former unemployment welfare, higher receipts were expected in the unemployment insurance: “Two factors that will have a favourable influence on contribution volume have not yet been taken into account. The number of contributors to the unemployment insurance scheme will increase due to the inclusion of domestic helpers. And the income from contributions will increase because the contributions of higher-paid employees will be assessed according to their economic earnings (...), whereas they are now not obliged to pay contributions on the part of their earnings that is above the limit of compulsory health insurance”. Taking into account the above favourable factors on the income from contributions, a monthly receipt of 49.2 million RM per month is calculated.<sup>229</sup> This means an additional revenue of 0.7 million RM per month as a result of the inclusion of domestic helpers in the unemployment insurance and the assessment of the contribution on the basis of the total income of the higher-paid employees

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<sup>226</sup>RT- Bd. 392, p. 8898.

<sup>227</sup>RT-Bd. 413, Drucks. Nr. 2855, p. 56.

<sup>228</sup>RT-Bd. 413, Drucks. Nr. 2855, p. 57.

<sup>229</sup>RT-Bd. 413, Drucks. Nr. 2855, p. 57.

Table 3.3: Monthly contribution receipts of the unemployment welfare scheme

1926	Contributions received	Persons liable to pay contributions <sup>1)</sup>	Per capita of the persons liable to pay contributions
	<i>RM</i>		<i>RM</i>
June	44 582 538,81	16 109 425	2,767
July	49 396 687,99	16 142 381	3,060
August	50 114 479,41	16 244 389	3,085
September	49 800 000,00 <sup>2)</sup>	16 352 674	3,045

<sup>1)</sup> The update is based on the average number of persons liable to pay contributions in the year 1925/26 and is calculated on an ongoing basis according to the measurement figure for the movement of health insurance members.

<sup>2)</sup> Preliminary result.

*Source:* RT-Bd. 413, Drucks. Nr. 2885, p. 56.

relative to the previously assumed target level of 48.5 million. Calculated over a whole year, this corresponds to 8.4 million RM.

Since the replacement of unemployment benefits by the introduction of unemployment insurance is about a more just and social design of the unemployment support system, I classify the measure as exogenous (X), ideological (IL).

### Individual tax changes

A *Gesetz über Änderungen des Zuckersteuergesetzes* was published on 15 July 1927 and came into effect shortly thereafter on 1 August 1927. The tax rates for sugar were reduced by half and the starch sugar tax was increased.<sup>230</sup> The explanatory memorandum to the law states: “Compared to other countries, however, the per capita consumption in Germany is still very low. (...) This fact justifies the assumption that sugar consumption in Germany can still be increased. The proposed reduction of the sugar tax by 50 per cent is intended to bring about such an increase. To achieve this goal, a reduction of this magnitude seems necessary (...). Assuming that this increase will amount to 10 per cent, domestic sales of about 14.3 million quintals can be expected. At a tax rate of 10.50 RM, this would

<sup>230</sup>RGBl. 1927 I, p. 179.

result in a revenue of 150 million RM, i.e. a shortfall of 125 million RM compared to the estimated revenue of 275 million RM for the financial year 1927.”<sup>231</sup> Since the point of the sugar tax is to bring about an increase in consumption by lowering tax rates, I classify the measure as endogenous (N), demand management (DM).

On 21 December 1927, a new *Kraftfahrzeugsteuergesetz* was promulgated with applicability from 1 April 1928 to change the motor vehicle tax.<sup>232</sup> In particular, it provides for a new tax rate based on cubic centimetres of engine capacity for motorbikes and passenger cars, on kilograms of net weight for buses and lorries, and a reduction of the surcharge. “Taking into account, on the one hand, a further increase in the number of motor vehicles and, on the other hand, the tariffs fixed in the new law and the reduction of the surcharge from 25 to 20 per cent in accordance with § 13 Abs. 2 of the *Finanzausgleichsgesetz*, at least 160 million Reichsmarks are to be expected for the accounting year 1928. The motor vehicle tax for 1928 is estimated at this amount.”<sup>233</sup> This represented an additional revenue of 30 million RM relative to the previous year. “For 1928, not only must the amount not fall below the (...) amount of 150 million RM, but a higher amount must be raised. The decisive factor here is that the motor vehicle tax has the character of a special-purpose tax, i.e. that its revenue must be used to fulfil a specific purpose, namely to finance part of the road maintenance.” However, since the costs for road construction and maintenance amounted to approximately 500 million RM annually, an increase in the tax rates was unavoidable in order to increase the revenue from the motor vehicle tax. The amount of the surcharge, which would be a “compensation for the contributions for extraordinary road use”, would also be of great importance for the revenue. If the “maintainers” of the road network were to reduce the vehicle tax, they would have to raise real taxes, for example, to compensate. However, the general public could not be burdened with the costs, the use of which would primarily benefit motor vehicle owners.<sup>234</sup> I classify the change in motor vehicle tax, which like the previous year’s amendment was dedicated to road construction, as endogenous (N), spending-driven (SD).

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<sup>231</sup>RT-Bd. 416, Drucks. Nr. 3515, p. 2.

<sup>232</sup>RGBl. 1927, I. p. 509.

<sup>233</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1928, pp. 18-19.

<sup>234</sup>RT-Bd. 420, Drucks. Nr. 3721, p. 10.

The income tax was altered on 1 January 1928 by the *Gesetz zur Änderung des Einkommensteuergesetzes* of 22 December 1927.<sup>235</sup> The law was a consequence of the limitation of the wage tax revenue by the Lex Brüning. “Since the revenue from wage tax from April to September 1927 had totalled 640 million RM, thus more than 600 million RM, the Reich government was obliged, on the basis of the “Lex Brüning” (...), to submit a bill to reduce wage tax.”<sup>236</sup> The fact that the wage tax revenue at the time far exceeded the revenue from assessed income tax, including the tax deduction from capital gains and corporation tax, led to its restriction by law of 3 September 1925<sup>237</sup> to 600 million RM per half year, i.e. 1200 million RM per year. The intention was to eliminate the aforementioned “disproportion”.<sup>238</sup> The new law also made a change to the Lex Brüning. The annual revenue limit from wage tax was increased from the previous 1200 million RM to 1300 million RM. At the same time, a half-yearly revenue of 600 million RM should no longer oblige the government to submit a bill to the Reichstag to reduce the wage tax, but only after one year, when the 1300 million RM had been exceeded, such a bill should follow. The form in which the wage tax was to be reduced was also no longer defined in detail. The text of the law states: “If the income from the wage tax exceeds the amount of 1300 million Reichsmarks in the calendar year 1928 or in a later calendar year, the Reich government shall submit a bill which brings about a reduction in the wage tax.”<sup>239</sup> The changes in wage tax and assessed income tax consisted of reducing the tax amount by 15 per cent, but not more than 24 RM per year for annual incomes of up to 8,000 RM and increasing the maximum amounts for deductible special benefits. In addition, the tax on wages was not levied if the amount of tax levied on the payment of wages for full months did not exceed 1 RM compared to 0.80 RM previously. The effect of the tax change is stated as follows: “The wage tax for 1928, if no change had been made on 1 January 1928, would have been considered to be a net amount of 1,480 million Reichsmarks (cf. draft of a law amending the income tax law - Reichstag printed matter no. 3772 -). As a result of the law amending the

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<sup>235</sup>RGBl. 1927 I, p. 485.

<sup>236</sup>AdRk Marx III/IV, Band 2 (1927), Dok. Nr. 264.

<sup>237</sup>RGBl. 1925 I, p. 331.

<sup>238</sup>RT-Bd. 420, Drucks. Nr. 3772, p. 4.

<sup>239</sup>RGBl. 1927 I, p. 486.

Income Tax Act, a loss of 180 million Reichsmarks is to be expected. (...) The other income tax (income of assessed taxpayers) was estimated at 1,300 million Reichsmarks for 1927. (...) An increase of 150 million Reichsmarks is assumed and accordingly the assessed income tax is estimated at 1,450 million Reichsmarks for 1928; the reduction which will occur in the 1928 financial year as a result of the law amending the Income Tax Act (about 30 million Reichsmarks) is also taken into account.”<sup>240</sup> Accordingly, the estimate of the revenue shortfall due to the legislation is 210 million RM: 180 million RM from payroll tax and 30 million RM from assessed income tax. Since the primary purpose of the measure was to relieve the burden on lower incomes and the original intention was to eliminate the discrepancy in revenue from payroll tax and assessed income tax, including the deduction from capital and corporation tax, I classify the measure as exogenous (X), ideological (IL).

#### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *exogenous* (X), *ideological* (IL) classification.

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<sup>240</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1928, p. 17.



## 1928/29 Budget: 19 January 1928

*Reich Minister of Finance:* Heinrich Köhler (Zentrum);

*Chancellor of the German Reich:* Wilhelm Marx (Zentrum)

### Context

GDP growth between the first quarter of 1927 and 1928 was 9.4 per cent, while investment growth had already dropped sharply to 1.7 per cent in the first quarter of 1928, consumption growth still rose to 10.9 per cent.<sup>241</sup> The unemployment rate had fallen from 12.4 per cent in the third quarter of 1926 to 6 per cent in the first quarter of 1928, while employment was approaching its Weimar peak at 17.6 million employees. Small budget surpluses were generated in the financial year 1927/28.<sup>242</sup> On 10 May 1927, the Reichsbank began to raise the Bank rate again, first to 6 and on 4 October to 7 per cent. Broad money growth jumped to 9.3 per cent at an annual rate in the 1st quarter of 1928, while inflation was close to the previous year's level.<sup>243</sup>

### Overall budget objectives

The Reich Finance Minister Köhler presented the draft budget to the Reichstag on 19 January 1928. After the budget was passed by Parliament on 30 March 1928, it was issued the following day.<sup>244</sup> On the same day, after the budgetary questions had been settled, Reich Chancellor Marx stated “that thanks to the devoted and dedicated cooperation of all the bodies appointed for this purpose, it has been possible this year to complete the Reich budget for 1928 plus the supplementary budget for 1927 in due time.”<sup>245</sup> As the government had announced earlier, the Reichstag was dissolved with the adoption of a labour emergency programme on 31 March 1928.

With regard to the upcoming Reichstag elections, Reich Finance Minister Köhler already remarked in his budget speech on 19 January 1928 that “it will

<sup>241</sup>Based on Ritschl (2002b), series C.2.3, C.2.6 and C.2.1.

<sup>242</sup>Based on Ritschl (2002b), series C.2.4.

<sup>243</sup>Based on Ritschl (2002b), series C.2.11 and C.2.5.

<sup>244</sup>RGBl. 1928 II, p. 209.

<sup>245</sup>RT-Bd. 395, p. 13984.

be the task of every government to look for possibilities of reduction” in the field of taxation. He considered “the present overall tax pressure to be still excessive and unbearable in the long run”. For 1928, the major lines of the 1925 tax reform would have to be continued to “promote the formation of new capital”, whereby for “the Reich a permanent possibility of reduction can only be found if a corresponding reduction in expenditure can be achieved.”<sup>246</sup> After the Reichstag elections, the newly appointed Reich Chancellor Herrmann Müller emphasised in his government declaration that the new “Reich government will turn its attention to the question of the extent to which the oppressive tax burden, which rests in particular on the middle and lower strata of the population, can be eased”. This socially motivated relief “would at the same time strengthen the ability to save and promote the formation of capital in the interior.”<sup>247</sup>

### Individual tax changes

On 9 June 1928, a *Verordnung über die Einheitsbewertung und Vermögensteuerveranlagung 1928* was published which created the legal basis for a new assessment of the property values as of 1 January 1928.<sup>248</sup> The tax estimate by the Reich Minister of Finance, Köhler, reads as follows: “In estimating the wealth tax at 520 million, i.e. 50 million more than for 1927, it must be taken into account that on 1 January 1928 there will be a reassessment of the assets which, in view of the increase in the economy which has occurred in the meantime, will lead to a not inconsiderable increase in the values of both the real estate values and the business and capital assets.”<sup>249</sup> The Reich budget for 1928 confirms this additional revenue of 50 million RM.<sup>250</sup> Since the 1928 Reich Budget sought “to put into practice the repeated announcements of a thrifty economy of the Reich and to avoid a deficit budget at all costs”,<sup>251</sup> the additional revenues resulting from the revaluation were used for deficit reduction (DR), which is to be classified as endogenous (N).

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<sup>246</sup>RT-Bd. 394, p. 12237.

<sup>247</sup>RT-Bd. 423, p. 45.

<sup>248</sup>RGBl. 1928 I, p. 165.

<sup>249</sup>RT-Bd. 394, p. 12236.

<sup>250</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1928, pp. 16-17.

<sup>251</sup>RT-Bd. 394, p. 12235.

A *Zweites Gesetz zur Änderung des Einkommensteuergesetzes* was published on 23 July 1928, which came into force on 1 October 1928.<sup>252</sup> The new Reich Chancellor Müller had already made the following statement in his government declaration of 3 July 1928: “In the field of tax policy, the government of the Reich will turn its attention to the question of the extent to which the oppressive tax burden, which lies in particular on the middle and lower strata of the population, can be eased. This would at the same time strengthen the ability to save and promote the formation of capital within the country. (...) It will remain to be examined whether in the field of income tax (...) a moderate reduction of the rate in the lower and middle brackets appears feasible. (...) The question of the extent to which relief should be sought for incomes up to 8,000 Marks, whether they are subject to wage deduction or assessed, appears to be urgent in view of the fact that the income tax revenue in the past months of the financial year has reached amounts which give reason to expect that the maximum sum laid down by law will be exceeded.”<sup>253</sup> With the expected “exceeding of a legally fixed maximum sum”, Müller was referring to the legal passage of the *Lex Brüning*, according to which the income tax revenue was capped at 1,300 million RM, so that a tax reduction was to be brought about for any revenue exceeding this. The intention was to preempt this even before the end of the calendar year 1928.<sup>254</sup> In accordance with the announcement by the government, the following changes were introduced in the law of 23 July 1928: for wage tax and assessed income tax, the tax reduction was increased to 25 per cent of the tax amount, up to a maximum of 36 RM per year for incomes up to 15,000 RM. In the case of wage tax, income was rounded off by 5 RM for monthly payments, 1 RM for weekly payments and 0.20 RM for daily payments to full amounts. The revenue loss projected from the change in the law amounted to 150 million RM. “For the accounting year 1929, the payroll tax cuts of the July amendment, which were estimated at 120 million annually, will have their full effect. (...) It should be borne in mind, however, that at the same time as the Reich budget, on the basis of the resolution of the Reichstag of 12 July 1928, an income tax amendment has been submitted which already provides

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<sup>252</sup>RGBl. 1928 I, p. 290.

<sup>253</sup>RT-Bd. 423, p. 45.

<sup>254</sup>AdRk Marx III/IV, Band 2 (1927), Dok. Nr. 364.

for rate reductions for middle incomes with effect for the 1929 financial year. The shortfall is calculated at about 30 million.”<sup>255</sup> I classify the measure, which was mainly intended to relieve the middle and lower income groups, as exogenous (X), ideological (IL). However, the cut could also be classified as a measure to promote long-run performance (LR), as it was also intended to promote savings and capital formation at the same time.

The *Verordnung über Beförderungsteuer im Personenverkehre* was published on 26 October 1928 and came into force retroactively from 1 October 1928. The tax is set at 16% of the respective fare in the 1st class, 14% in the 2nd class, and 11% in the 3rd class for passenger transport on railways that do not have a 4th class.<sup>256</sup> In the 1929 budget, the passenger transport tax revenue is estimated to be 10 million RM higher than in 1928. “The new wagon class division introduced by the Reichsbahn in October 1928” was taken into consideration for the estimate, “as well as the tax rate of 11% for the new 3rd wagon class.”<sup>257</sup> As no further documentation could be traced on the motivation of this measure, it is classified according to the overall budget objectives.

### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *exogenous* (X), *ideological* (IL) classification.

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<sup>255</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1929, p. 19.

<sup>256</sup>RGBl. 1928 I, p. 384.

<sup>257</sup>Haushalt der Allgemeinen Finanzverwaltung 1929, pp. 20-21.

## 1929/30 Budget: 14 March 1929

*Reich Minister of Finance:* Rudolf Hilferding (SPD);

*Chancellor of the German Reich:* Hermann Müller (SPD)

### Context

During the 1928/29 financial year, the German economy slid into recession. GDP fell from the first quarter of 1927 by 6.9 per cent within a year, investment by 13.8 per cent and consumption by 4.5 per cent.<sup>258</sup> The unemployment rate had increased by 5 per cent to 11.1 per cent in the first quarter of 1929 compared to the previous year, while the number of registered unemployed rose above 2 million for the first time. The 1928/29 budget generated a deficit of about 0.3 per cent of GDP and followed an upward trend.<sup>259</sup> The Reichsbank Bank rate remained unchanged at 7 per cent for the entire calendar year 1928 until it was lowered to 6.5 per cent on 12 January 1929 and shortly thereafter increased by one percentage point to 7.5 on 25 April. After the jump in the money supply in the spring of 1928, the growth of broad money and inflation converged again in the course of 1928. In the first quarter of 1929, the money supply grew by 4.7 per cent, while prices grew by 2.7 per cent within one year.<sup>260</sup>

Shortly after the adoption of the foregoing budget, there had been Reichstag elections on 20 May 1928, which had brought gains in votes for the left-wing parties, especially the SPD, while the former government coalition had lost voters. The SPD, as the strongest force, together with the DDP, the Zentrum, the BVP and the DVP formed a grand coalition under the new Reich Chancellor Hermann Müller (SPD). In the cabinet formed on 28 June 1928, Rudolf Hilferding (SPD) was appointed Reich Finance Minister.

### Overall budget objectives

Reich Finance Minister Rudolf Hilferding did not introduce the budget for the impending 1929/30 financial year to the Reichstag until 14 March 1929, so that

<sup>258</sup>Based on Ritschl (2002b), series C.2.3, C.2.6 and C.2.1.

<sup>259</sup>Based on Ritschl (2002b), series C.2.4.

<sup>260</sup>Based on Ritschl (2002b), series C.2.11 and C.2.5.

a provisional arrangement became necessary. The final budget was issued on 29 June 1929 after prior approval by parliament on 27 June.<sup>261</sup>

In presenting the budget, the Reich Minister of Finance emphasised in particular the tight cash situation “caused by the previous budgetary management, above all by the deficit in the Extraordinary Budget.”<sup>262</sup> This was aggravated by the economic development, since tax revenues were more sensitive to economic cycles than before the war, and rising unemployment figures led to higher loans from the Reich to the unemployment insurance. As a result, short-term financing was sought for “a peak of around 400 million”.<sup>263</sup> In order to maintain confidence in the currency and the soundness of finances, “it is absolutely necessary to maintain the balance in the budget. For these reasons alone, any thought of a deficit budget had to be rejected when the budget was drawn up.”<sup>264</sup> Furthermore, Hilferding stated that against the background of a high tax burden, which slowed down capital formation, and a sinking economy, “this coverage had to be done in a really genuine way”.<sup>265</sup> In addition to extensive expenditure cuts and higher revenue estimates, “a deficit then remained that had to be covered by new taxes”.<sup>266</sup> In total, six tax increases were introduced into parliament as a cover proposal with the budget law.

### Individual tax changes

On 17 May 1929, a *Gesetz über Maßnahmen zur Besserung der Kassenlage* was promulgated in conjunction with a *Verordnung über die Steuerbefreiung der Reichsanleihe 1929*, which came into force retroactively on 1 April 1929. According to these regulations, bonds and treasury notes issued under the 1929 Reich budget and its provisional regulations could be exempted from wealth tax, and under certain conditions also from inheritance and income tax, up to an amount of 500 million RM.<sup>267</sup> The law was enacted in order to remedy the poor cash situa-

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<sup>261</sup>RGBl. 1929 II, p. 443.

<sup>262</sup>RT-Bd. 424, p. 1404.

<sup>263</sup>RT-Bd. 424, p. 1405.

<sup>264</sup>RT-Bd. 424, p. 1406.

<sup>265</sup>RT-Bd. 424, p. 1407.

<sup>266</sup>RT-Bd. 424, p. 1409.

<sup>267</sup>RGBl. 1929 I, p. 95.

tion, which resulted from uncovered expenditures of the extraordinary budget in connection with welfare for the unemployed and shortfalls from 1928. The explanatory memorandum to the new law emphasises in particular the provisions of §1, “which give rise to hopes of more rapid assistance in sufficient amounts. The loss of tax revenue would be kept within tolerable limits at the level of 500 million RM. In addition, the possibility of acquiring tax-free securities seems suitable to counteract the existing tendency to invest capital abroad.”<sup>268</sup> The rapporteur informed the meeting participants during the second and third deliberations on the draft law “that the government, when it decided in favour of the tax exemption, assumed that the social consequences, if the Reich treasury could not now be put in order, would be much more unbearable for all circles of the population than the tax privilege and especially than the loss of 10 million marks in taxes for the Reich. The Reich Minister of Finance estimates the loss of taxes at 10 million, on the following basis of estimation: he calculates that 20 per cent of the income tax will be lost, i.e. 7 million, that a further 0.4 per cent of the wealth tax for the holders of the bonds will be lost, i.e. 2 million, and that finally the inheritance tax will be lost by 1 million, so that altogether a loss of taxes of 10 million is to be expected.”<sup>269</sup> Since the tax exemption was intended to make it easier to place the Reich bonds on the capital market, I classify the measure as endogenous (N), deficit reduction (DR).

A *Gesetz zur Änderung des Gesetzes über das Branntweinmonopol* was published on 21 May 1929. It was applicable as of 1 June 1929, and primarily increased the tax on spirits and the revenue per hectolitre for the spirits monopoly.<sup>270</sup> In his speech on the Reich budget on 14 March 1929, Reich Finance Minister Hilferding addressed the budget deficit, which would have to be covered by new taxes. Alcohol taxes would “form an essential part of these bills to cover” the deficit, he stated. He put the estimate for the increase in liquor revenue at that time at 90 million RM.<sup>271</sup> The explanatory memorandum to the law also states: “On the other hand, the development of the Reich’s finances in connection with the reparation payments due at the beginning of the next financial year urges that larger

<sup>268</sup>RT-Bd. 436, Drucks. Nr. 1016, p. 2.

<sup>269</sup>RT-Bd. 424, p. 1912.

<sup>270</sup>RGBL. 1929 I, p. 99.

<sup>271</sup>RT-Bd. 424, p. 1409.

amounts than hitherto be extracted from the spirits monopoly.”<sup>272</sup> Since this law was intended to help cover the budget, I classify the measure as endogenous (N), deficit reduction (DR).

With the adoption of the Reich budget for the 1929 fiscal year on 29 June 1929,<sup>273</sup> § 9 increased the wealth tax in the 1929 calendar year by an additional 8 per cent of the relevant wealth tax amount.<sup>274</sup> On the budget negotiations for the 1929 budget it states: “The ordinary budget was then completely reorganised in the Reichstag. Of the proposed tax increases (...) the surcharge on wealth tax was limited to 8 per cent. Accordingly, only 110 million of the tax increases were decided, namely 40 million by increasing the wealth tax (...).”<sup>275</sup> Reich Finance Minister Hilferding explained his motivation for having “written the wealth tax into the budget law” instead of a separate wealth tax amendment: “Particularly with the very strong economic influences, it would be necessary for us to move now to a somewhat more elastic practice, also for the future, and that as a result we simply make certain increases or reductions in taxes by way of the budget law where the tax system is in itself simple and permits it. That is the reason why I have put the wealth tax in the Budget Law and not in the Tax Law.”<sup>276</sup> Since the additional revenue from the wealth tax was also intended to balance the budget, I classify the measure as endogenous (N), deficit reduction (DR).

In addition to the budget, a *Gesetz zur Änderung des Einkommensteuer- und Körperschaftsteuergesetzes* was promulgated on 29 June 1929.<sup>277</sup> It involved the allowance of loss carry-forward as a deductible expense for income and corporation tax, limited to two years. The implementation took effect from 1 January 1930. The report of the Committee on Tax Matters said of the draft law: “In the Commission, the equal treatment of all taxpayers had rightly always been placed in the foreground.” Regarding the amount of tax loss that would result from the introduction of the loss carry-forward, the “representative of the Reich Ministry of Finance (...) stated that in 1929 there would be no loss at all, and that the

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<sup>272</sup>RT-Bd. 434, Drucks. Nr. 881, p. 10.

<sup>273</sup>RGBl. 1929 II, p. 443.

<sup>274</sup>RGBl. 1929 II, p. 444.

<sup>275</sup>RT-Bd. 440, Drucks. Nr. 1654, p. 11.

<sup>276</sup>RT-Bd. 424, p. 1410.

<sup>277</sup>RGBl. 1929 I, p. 123.



loss in later years could be estimated at about 30 to 40 million”.<sup>278</sup> Since the amendment is about uniformity of taxation, I classify the measure as exogenous (X), ideological (IL).

Also on 29 June 1929, a *Gesetz zur Änderung des Wechselsteuergesetzes* was enacted, which came into force on 1 August 1929.<sup>279</sup> Two relevant changes were made to the taxation of bills of exchange: First, the tax relief for bills of exchange drawn from abroad to the home country and payable in the home country, and second, the abolition of the increased tax for long-term bills of exchange. While with regard to the first amendment it is stated: “A financial loss for the Reich is not to be feared from this, since such bills of exchange are at present only issued to a small extent (...)”, with regard to the second amendment it is assumed that there will be a loss of revenue, but to a small extent. “The proposed deletion of the provisions of the Bills of Exchange Tax Act referred to in No. 2 is intended to remove the increased tax on long-term bills of exchange. The ‘further levy’ has been incorporated into the Bill of Exchange Tax Act of 18 June 1923 (Reichsgesetzbl. I p. 403) under the designation ‘Bill of Exchange Subsequent Tax’ when the Bill of Exchange Act was adapted to the *Reichsabgabenordnung*. (...) The expectations that were attached to the introduction of the ‘further levy’ have not been fulfilled. (...) The abolition of the increased tax is also likely to bring about a simplification in the handling of exchange transactions, which is desirable from an economic point of view. (...) The abolition of the increased tax is also in the direction of the desired tax simplification. The loss of revenue resulting from the abolition of the increased tax is estimated to be only small in relation to the total revenue from bill of exchange tax. The loss is estimated at a maximum of 4 per cent of the revenue. The bills of exchange tax is budgeted at 50 million RM for 1928. Of this, the increased tax would account for about 2 million RM.”<sup>280</sup> As far as the motivation for amending the bill of exchange tax law is concerned, a representative of the Reich Ministry of Finance commented as follows: “The work involved in paying and controlling the increased tax is disproportionate to its revenue. The loss of tax revenue that would occur if the increased tax were

<sup>278</sup>RT-Bd. 436, Drucks. Nr. 1156, pp. 3, 5.

<sup>279</sup>RGBl. 1929 I, p. 124.

<sup>280</sup>RT-Bd. 434, Drucks. Nr. 881, pp. 32-33.

abolished was estimated at about two million Reichsmarks.”<sup>281</sup> Since the tax change characterises as simplification and deregulation measure, I classify it as exogenous (X), long-run performance (LR).

On 12 October 1929, a *Gesetz zur Änderung des Gesetzes über Arbeitsvermittlung und Arbeitslosenversicherung* extended, among other changes, the group of persons liable to pay contributions to the unemployment insurance.<sup>282</sup> In Article I No. 14, Section 74(3) was amended to read: “(3) The exemption from insurance ceases twelve months before the day on which the apprenticeship relationship ends due to the passage of time.” Accordingly, compulsory insurance was introduced for apprentices in their final year of apprenticeship. “Even if § 74 was deliberately created at the time to particularly favour apprenticeships, this disproportion between contributions and benefits is severe and can no longer be justified in view of the unfavourable financial situation of the Reichsanstalt. (...) Financially, the change means for the Reichsanstalt an increase in the contribution receipts, which, with all reservations, can be estimated at about 1 million RM per year.”<sup>283</sup> As the amendment to Section 74(3) seeks to collect more contributions to the unemployment insurance and thus avoid higher loans from the Reich, I classify the measure as deficit reduction (DR), endogenous (N).

On 22 December 1929, a *Gesetz zur Änderung des Tabaksteuergesetzes* was proclaimed, which came into force on 1 January 1930.<sup>284</sup> The tobacco tax and the cigarette material tax were increased along with the equalisation tax on imported cigarettes which was raised from 400 to 500 RM for a quintal of cigarettes. Reich Chancellor Müller commented on this in a statement to the Reichstag in December 1929 as follows: “The second measure which the Reich Government considers absolutely necessary is the amendment with regard to tobacco taxation to be brought into force on the same date. As I have already pointed out, this tax increase is to be estimated at 220 million annually. The cash profit for one month is (...) not excessive. However, the Reich government attaches importance to showing the entire public, precisely through this measure, which results in a tax increase that is by no means popular, that it is bitterly serious in its striving to

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<sup>281</sup>RT-Bd. 436, Drucks. Nr. 1156, p. 6.

<sup>282</sup>RGBL. 1929 I, p. 153.

<sup>283</sup>RT-Bd. 437, Drucks. Nr. 1311, p. 11.

<sup>284</sup>RGBL. 1929 I, p. 234.

tackle the cash deficit with the utmost energy.”<sup>285</sup> Consequently, the increase in tobacco tax is to be classified as a deficit reduction (DR), endogenous (N) measure.

With the *Gesetz über die befristete Erhöhung des Beitrags in der Arbeitslosenversicherung* of 27 December 1929, the contribution rate to the unemployment insurance was increased by ½ per cent for half a year as of 1 January 1930.<sup>286</sup> On 28 April 1930, this temporary increase became permanent and the contribution of 3½ per cent was maintained beyond 30 June 1930.<sup>287</sup> Reich Chancellor Müller remarked on the increase in contributions: “Bearing in mind that the difficulties in the cash situation are due not least to the fact that very considerable loans, increasing the uncovered extraordinary, had to be paid to the unemployment insurance scheme last winter, the Reich Government has unanimously decided that the aforementioned increase of ½ per cent in unemployment insurance contributions must come into force with immediate effect, i.e. as early as 1 January 1930. (...) Through these (...) measures of the so-called immediate programme - increase of contributions to unemployment insurance (...) - the Reich Treasury will receive 140 (...) million annually.”<sup>288</sup> Expenditure on unemployment benefits had risen substantially, so that it had exceeded revenues. “The heavy demands on Reich funds” had made the Reich’s cash position even more precarious in the winter and spring of 1929, which should not be repeated. It was therefore questionable whether the Reich would be in a position for the time being “to give loans to the Reichsanstalt to the extent that could still be considered possible when the law was passed.” In order to avoid higher borrowing by the unemployment insurance from the Reich, it was concluded that contributions would have to be increased: “The majority of the Commission therefore proposed to increase the contribution to unemployment insurance by ½ per cent (...). Increasing the contribution by ½ per cent will bring in 140 million a year.”<sup>289</sup> As the increase in contributions was intended to prevent the unemployment insurance from borrow-

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<sup>285</sup>RT-Bd. 426, p. 3541.

<sup>286</sup>RGBl. 1929 I, p. 244.

<sup>287</sup>RGBl. 1930 I, p. 145.

<sup>288</sup>RT-Bd. 426, p. 3541.

<sup>289</sup>RT-Bd. 437, Drucks. Nr. 1311, pp. 3, 5.

ing even more from the Reich, I classify it accordingly as endogenous (N), deficit reduction (DR).

On 29 January 1930, a *Zündwarenmonopolgesetz* was enacted to establish an match monopoly, which became effective on 1 June 1930.<sup>290</sup> According to § 47, a special tax was levied for ignition goods intended for sale and located in the match monopoly area on 1 June 1930. “§ 47 The Reich Government is empowered to impose a special tax on ignition goods which are in the monopoly area on the day this Act comes into force and which are intended for sale.”<sup>291</sup> The Reich budget for 1930 estimates a revenue of 4 million RM to be raised on the basis of § 47: “The estimate represents the share of the net profit of the ignition goods monopoly accruing to the Reich under the Ignition Goods Monopoly Act as well as the monopoly compensation to be paid by the consumer co-operatives not affiliated to the monopoly society. The amount is estimated taking into account the envisaged special tax (§ 47 of the Ignition Goods Monopoly Act).”<sup>292</sup> Furthermore, according to § 49, there were tariff changes in the match tax with partial reductions of tariffs depending on the quantity of pieces in the box. Compared to the previous year, a reduction of 1 million RM is given in the budget for the fiscal year 1930.<sup>293</sup> It is reasonable to believe that this shortfall is a consequence of the above-mentioned change. The justification for the law mentions the “unhealthy conditions of the match industry”, which had often been a topic of discussion in the Reichsrat in the recent past. As early as 1926, the Reich government had seen itself compelled to commission the Provisional Reich Economic Council with investigations in this regard. The council had recommended “to initiate negotiations among the interested parties for the creation of a joint sales organisation, whereby the price policy should be subject to the supervision of the Reich to a certain extent”. These suggestions were implemented. Nevertheless, the previous treaties and laws had not been able to contribute to the health of the German match industry. Domestic and foreign competition had made life difficult for it. “As it had already been predicted by experts during the Reichstag negotiations

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<sup>290</sup>RGBl. 1930 I, p. 11.

<sup>291</sup>RGBl. 1930 I, p. 19.

<sup>292</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1930, pp. 4, 28-29.

<sup>293</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1930, pp. 4, 28-29.

when the law of 28 May 1927<sup>294</sup> was being discussed, the circumstances were pushing for the introduction of a monopoly.”<sup>295</sup> Since the support of the match industry was one of the decisive factors for the enactment of the law, I classify the measure as a supply stimulus (SS), endogenous (N).

Tariff increases for coffee and tea were announced by the *Verordnung über Inkraftsetzung der Zollerhöhungen für Kaffee und Tee* on 20 February 1930.<sup>296</sup> The introduction had been made urgent beforehand. Regarding the draft, the Reich Minister of Finance stated: “The tariff increases would have to come into force as early as 5 March. The difficult financial situation requires that new sources of revenue flow as early as 1 April.” The additional revenue from the increase in customs duties and additional customs duties would amount to 60 million RM. “On the basis of the discussion, the Reich Chancellor stated that the Cabinet agreed to the enactment of the ordinance proposed by the Reich Minister of Finance.”<sup>297</sup> In the draft beforehand, the Reich Minister of Finance already drew attention to the “great urgency” of the matter: “The difficult financial situation, as well as in particular the extremely strained cash position of the Reich, compel us to examine all possibilities of increasing revenue. The law of 8 April 1922 makes it possible to accelerate the implementation of the tariff increases for coffee and tea by means of an ordinance (...). It is estimated that the additional revenue resulting from the tariff increases will amount to about 40 million Reichsmark per year for coffee and about 7 million Reichsmark per year for tea. In addition, the additional duty on coffee and tea is expected to bring in about  $10 + 3 = 13$  million Reichsmark in one-off revenue.”<sup>298</sup> In the Reichstag, Reich Finance Minister Moldenhauer gave a similar estimate, which differs from this, but also leaves the additional duty unmentioned: “The increase in customs duties is based in the amount of 50 million on an increase in the coffee and tea duty”.<sup>299</sup> In the record I assume an additional revenue due to the tariff increase

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<sup>294</sup>Gesetz über die Erlaubnispflicht für die Herstellung von Zündhölzern vom 28. Mai 1927; RGBl. 1927 I, p. 123.

<sup>295</sup>RT-Bd. 439, Anlagen Nr. 1572, pp. 13-14.

<sup>296</sup>RZBl. 1930, p. 61 ff.

<sup>297</sup>AdRk Müller II, Band 2 (1930), Dok. Nr. 451.

<sup>298</sup>BA R 43-I/1441, Blatt 292/293.

<sup>299</sup>RT-Bd. 427, p. 5019.

of 60 million RM. Since the measure is an attempt to reduce the budget deficit through revenue raising, I classify it as endogenous (N), deficit reduction (DR).

**Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *deficit reduction* (DR) classification.

## 1930/31 Budget: 2 May 1930

*Reich Minister of Finance:* Paul Moldenhauer (DVP);

*Chancellor of the German Reich:* Heinrich Brüning (Zentrum)

### Context

In the financial year 1929/30, economic activity in terms of year-on-year GDP growth increased by 4.2 per cent in the first quarter of 1930, leaving the recession of 1928 behind.<sup>300</sup> Investment and consumption grew by 2.3 and 2.8 per cent respectively during this period.<sup>301</sup> In contrast, the unemployment rate in the 1st quarter of 1930, at 13.3 per cent, exceeded the previous high from the 3rd quarter of 1926. A total of 2.6 million people were registered as unemployed. The budget deficit doubled compared to the previous year and reached just under 0.6 per cent of GDP over the financial year 1929/30.<sup>302</sup> Starting on 2 November 1929, the Reichsbank responded to the increasing unemployment by lowering the Bank rate by half a percentage point at a time until a Bank rate of 4 per cent was reached on 21 June 1930. In the first quarter of 1930, both prices and the money supply decreased for the first time. While the money supply decreased by 1.1 per cent, prices decreased by 2.5 per cent at an annual rate.<sup>303</sup>

While the Grand Coalition was united in the will to achieve a revision of the Dawes Plan, they were far apart on fiscal policy issues of budget consolidation. In the course of 1929, the Reich's liquidity problems due to the increased annuities of the Dawes Plan, declining tax revenues resulting from the economic slowdown and the Reich's growing liability to sustain the unemployment insurance due to escalating joblessness had increased to such an extent that by the end of the year, the Reich was dependent on a loan from the Reichsbank. In return for the urgently needed loans, Reichsbank President Schacht demanded a fundamental reorganisation of the Reich's public finances, while no final agreement had yet been reached between the governments involved in terms of reparations policy.

<sup>300</sup>Based on Ritschl (2002b), Series C.2.3.

<sup>301</sup>Based on Ritschl (2002b), Series C.2.6 and C.2.1.

<sup>302</sup>Based on Ritschl (2002b), Series C.2.4.

<sup>303</sup>Based on Ritschl (2002b), series C.2.11 and C.2.5.

Thus, on 12 December 1929, Reich Chancellor Müller appeared before Parliament and declared that the presentation of the budget would be delayed, because the “shaping of the 1930 Reich budget depends most closely on the question of whether or not the Young Plan will be accepted by the governments involved.”<sup>304</sup> At the same time, the ordering of German financial policy, “the creation of a real, not a paper balance of the Reich budget”, and economic policy, “with the aim of allowing the economy to participate in the relief of the Young Plan”, were prerequisites for the acceptance of the new reparations agreement.<sup>305</sup> Whereas only shifts were to take place on the expenditure side, major changes were intended with regard to taxation. While 350 million RM were available for tax cuts, especially through the relief provided by the Young Plan, the increase in excise duties on beer and tobacco was intended to create further leeway to “give the ailing German economy the necessary new and strong impulses. Above all, the reform should encourage the necessary new capital formation.”<sup>306</sup> Income tax, property tax, trade tax, land tax and capital transfer taxes were to be reduced in the course of this, industrial bonds were to be abolished gradually and the sugar tax immediately, whereby “a tax reduction programme of exactly 915 million for 1930 was thus outlined in broad outline”.<sup>307</sup> At the same time, unemployment insurance was to be reorganised by a temporary increase in contributions, and short-term financial needs were to be consolidated by the Krueger bond related to the match monopoly.

Since a cash deficit still remained despite the introduction of the match monopoly, the short-term increase in tobacco tax and the rise in unemployment insurance contributions, Reich Finance Minister Rudolf Hilferding had tried in vain to take out foreign loans by circumventing the Reichsbank and left office on 21 December 1929 in protest against the extraordinary repayment of the Reich debt of 450 million RM in the upcoming financial year for a cash loan dictated by Reichsbank President Schacht. In particular, this had made “the relief of the economy by tax cuts of effective magnitude and in a near future” impossible.<sup>308</sup> He was

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<sup>304</sup>RT-Bd. 426, p. 3535.

<sup>305</sup>RT-Bd. 426, p. 3537.

<sup>306</sup>RT-Bd. 426, p. 3537.

<sup>307</sup>RT-Bd. 426, p. 3539.

<sup>308</sup>BA R 43-I/1308 Blatt 389, 405.



succeeded by Paul Moldenhauer (DVP) two days later. After the adoption of the Young Plan, the Grand Coalition finally broke up on 27 March 1930 over the question of the future financing of unemployment insurance. Thereupon, Reich President Hindenburg commissioned Heinrich Brüning to form a cabinet, of which Paul Moldenhauer continued to be a member in the Ministry of Finance.

### **Overall budget objectives**

The reorganisation of the financial and cash situation was also the central subject of the first government declaration by Reich Chancellor Heinrich Brüning on 1 April 1930. To this end, the new government had made use of the draft budget of the Reich Minister of Finance, who had already been involved in the previous cabinet, and the associated funding proposals. These new tax burdens for the rehabilitation of the cash situation were “only bearable if they are within the framework of an overall programme set for the long term and to be carried out step by step”. In addition, expenditure savings should “in turn contribute to lowering taxes, to raising the productivity of the economy, to strengthening Germany’s creditworthiness.” These austerity measures, in turn, “should create room for the reduction of real taxes, which weigh particularly heavily on craft trades and the entire urban and rural middle class” and were a “prerequisite for the pursuit of social policy”.<sup>309</sup> Brüning’s announcement on the implementation of his legislative projects represents a caesura in legislative practice from a parliamentary democracy to the so-called presidential cabinets, as it would be “the last attempt to implement the solution with this Reichstag”<sup>310</sup> and the government was “willing and able to use all constitutional means for this”<sup>311</sup> with regard to emergency decrees.

When Finance Minister Moldenhauer presented the Reichstag with the budget for the year 1930/31 on 2 May 1930, the cover bill taken over from the previous government had already been adopted by the Parliament on 15 April. The balancing of the budget thus achieved was the “foundation for the tax cuts in 1931”.<sup>312</sup>

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<sup>309</sup>RT-Bd. 427, p. 4729.

<sup>310</sup>RT-Bd. 427, p. 4728.

<sup>311</sup>RT-Bd. 427, p. 4730.

<sup>312</sup>RT-Bd. 427, p. 5015.

When it became clear on 19 May that the tax and contribution increases as well as the expenditure cuts would not be sufficient, Moldenhauer proposed, among other things, a levy on public servants.<sup>313</sup> This proposal was strictly rejected by the parliamentary group of the DVP, and in order not to break with his party, Moldenhauer resigned from office.<sup>314</sup> Hermann Dietrich (DDP), previously Minister of Economic Affairs, took over his office and on 7 July 1930, in the course of the debate on the budget in the Reichstag, he had “to justify the proposal for further coverage here before you.”<sup>315</sup> Due to the economic development of the last months, a deficit of 485 million RM had developed overall as a result of welfare burdens and tax shortfalls, which now had to be covered.<sup>316</sup> When the measures in parliament, in particular the introduction of a levy on public servants, fell through, the coverage programme was enacted by emergency decree.<sup>317</sup> This was again repealed by the Reichstag, whereupon Reich President Hindenburg dissolved the Reichstag on 18 July 1930 and re-issued the emergency decree, supplemented by changes to unemployment, health and social insurance as well as the Reich budget for the 1930/31 fiscal year, on 26 July 1930.<sup>318</sup> Previously, only temporary regulations for the budget had been issued on 29 March<sup>319</sup> and 29 June 1930.<sup>320</sup>

### **The Hague Conference on Reparations 1929-30 - Young-Plan**

As the Agent General for Reparation Payments, Parker Gilbert, monitored the development of the German economy since the London Conference of August 1924, the restoration of confidence in the broad sense, as intended by the earlier Committee of Experts under Charles Dawes, was achieved, but “the very existence of transfer protection, for example, tends to save the German public authorities from some of the consequences of their own actions, while, on the other hand, the uncertainty as to the total amount of the reparation liabilities inevitably tends

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<sup>313</sup>AdRk Brüning I/II, Band 1 (1930), Dok. Nr. 37, P. 2; 45, P. 9.

<sup>314</sup>AdRk Brüning I/II, Band 1 (1930), Dok. Nr. 50.

<sup>315</sup>RT-Bd. 427, p. 6188.

<sup>316</sup>RT-Bd. 427, p. 6189.

<sup>317</sup>RGBl. 1930 I, p. 207.

<sup>318</sup>RGBl. 1930 I, p. 311.

<sup>319</sup>RGBl. 1930 II, p. 670.

<sup>320</sup>RGBl. 1930 II, p. 945.

everywhere in Germany to diminish the normal incentive to do the things and carry through the reforms that would clearly be in the country's own interest". Hence, from the end of 1927 onwards, he publicly solicited the powers concerned for "the final determination of Germany's reparation liabilities, on an absolute basis that contemplates no measure of transfer protection".<sup>321</sup> Agreement on "the necessity of a complete and final settlement of the reparations problem" was finally reached between Belgium, Great Britain, France, Germany, Italy and Japan in Geneva on 16 September 1928, and a committee of financial experts was mandated to draw up appropriate proposals. Furthermore, they declared that they would enter into negotiations on the evacuation of the Rhineland, which had been occupied by British, French and Belgian troops since 1923.<sup>322</sup> The joint communiqué separated the reparations issue from that of the evacuation of the Rhineland, but in fact the two were now linked to each other.<sup>323</sup>

The Committee of Experts met in Paris between February and June 1929 under the chairmanship of Owen D. Young to put the spirit of the Geneva understanding to work and to replace the Dawes Plan. The report issued 7 June 1929 became known as the Young Plan.<sup>324</sup> A general agreement on the new mode of reparations was reached by 31 August 1929 between Germany and Belgium, Great Britain, Greece, Italy, Poland, Portugal, Romania, France, Czechoslovakia, Yugoslavia as well as Japan at the First Hague Conference while organisational and technical details were referred to committees whose reports were to be submitted at the reassembly.<sup>325</sup> Already one day earlier, consent had been reached to end the occupation of the Rhineland.<sup>326</sup> Between 3 and 20 January 1930, the participating powers met again to eventually give mutual acceptance to the Young Plan, also known as the New Plan, with the final act of the Second Hague Conference.<sup>327</sup> The

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<sup>321</sup>Agent General for Reparation Payments (1927a), p. 317.

<sup>322</sup>AdRk Müller II, Band 1 (1927), Dok. Nr. 28; ADAP Serie B, Band X, Dok. Nr. 28, pp. 73-82.

<sup>323</sup>The German text of the Geneva communiqué of 16 September 1928 can be found in BA R 43-I/494, Blatt 157, PAAA RZ 231/35585, Blatt 188 or Schulthess (1929), p. 439.

<sup>324</sup>For the report of the expert committee appointed according to the Geneva communiqué of 16 September 1929, the so-called Young Plan, see the German Reich Law Gazette (RGBl. 1930 II, p. 397.) and the records of the UK Parliament (Great Britain. Foreign Office, 1929c).

<sup>325</sup>Great Britain. Foreign Office (1929a).

<sup>326</sup>Great Britain. Foreign Office (1929b), RGBl. 1930 II, pp. 49-59.

<sup>327</sup>Great Britain. Foreign Office (1930).

adjustments to national legislation necessitated by the agreements were introduced along with the law granting general approval of it into the German parliament by the Reich Minister of Foreign Affairs on 11 February 1930,<sup>328</sup> passed on 12 March<sup>329</sup> and formally ratified on 13.<sup>330</sup> Legal effect took the new plan on 17 May 1930.<sup>331</sup>

The Young Plan stipulated the German reparation sum at a nominal value of 111 billion RM payable over a period of 58 years and 7 months until the year 1988. The annuities, as Table 3.4 shows, rose to 2.4 billion RM on a total average of about 1.9 billion RM by the 1965-66 fiscal year, before the burden was to diminish substantially for the remaining term. These annuities were now to be converted into foreign currencies on the German government's own responsibility and deposited with the newly founded Bank for International Settlements (BIS) for the benefit of the reparation creditors. 660 million RM annually were to be paid unconditionally, i.e. without the right to postponement. The remainder of the annuity was subject to the reservation of transfer and payment deferral, which was only to come into effect if the German government "has come to the conclusion in good faith, that Germany's exchange and economic life may be seriously endangered by the transfer in part or in full of the postponable portion of the annuities."<sup>332</sup> Germany will invoke this clause shortly after the London Conference on the Hoover Moratorium on 19 November 1931 to form a new Committee of Experts.<sup>333</sup>

According to the Young Plan, the annuities were in comparison to the Dawes Plan to be generated by only two sources: The German Railway Company and the Reich budget. According to the New Plan, the Reichsbahn was levied with the fixed sum of 660 million RM annually for 37 years, while the burden on the Reich budget changed with the amount of the total reparation annuity. From 1966 onwards, with the expiry of the Reichsbahn's contribution, the annuity falls

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<sup>328</sup>RT-Bd. 426, p. 3902, Bd. 439, Drucks. Nr. 1619.

<sup>329</sup>RT-Bd. 427, p. 4395.

<sup>330</sup>RGBl. 1930 II, p. 45.

<sup>331</sup>RGBl. 1930 II, p. 776, Bank for International Settlements (1931a), p. 8.

<sup>332</sup>RGBl. 1930 II, pp. 88-90; RGBl. 1930 II, p. 436.

<sup>333</sup>Great Britain. Foreign Office (1932a).

sharply and for the remaining term the obligations were to be covered entirely by the Reich budget. The former charge on industry was again to be lifted.<sup>334</sup>

Under the Young Plan, the railway bonds of 11 billion gold marks imposed in accordance with the Dawes Plan and implemented by the German Railway Law of 30 August 1924<sup>335</sup> were abolished. The former obligations derived from these bonds were replaced by a direct tax of 660 million RM annually for a period of 37 years, equal to the non-postponable part of the annuity. The revenue was to be imposed by German tax legislation, paid to the BIS and guaranteed by the German government. The Railway Company was also required to deposit its acknowledgement of this obligation with the BIS. The yield from the transport tax, which under the Dawes Plan covered up to 290 million gold marks for the annuities, was if necessary subsumed in the direct tax on the German Railway Company under the Young Plan and otherwise exonerated from reparation purposes.<sup>336</sup> The German Railway Law was brought into line with the Hague Agreement by means of the amendment of 13 March 1930,<sup>337</sup> re-promulgated in its new form<sup>338</sup> and put into force by decree from 17 May 1930 onwards.<sup>339</sup> The reparation tax as a direct tax on the Reichsbahn was introduced retroactively as of 1 October 1929. Since the liabilities from interest and amortisation on the German Railway Bonds and the subsequent reparation tax amount to 660 million RM each, the change in the reparation collection is not accompanied by a quantitative effect. The fact that the Reichsbahn does not experience any relief from the Young Plan is also shown in Figure 3.7, since the interest service and the direct tax equal each other. The transport tax, which had previously been levied proportionately for the reparation annuities, now accrues to the Reich's budget entirely.<sup>340</sup>

As a result of the Dawes Plan, the German industry was imposed with industrial debentures in the amount of 5 billion gold marks on the basis of the Industrial Charges Law (Gesetz über die Industriebelastung, short: Industriebelastungsge-

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<sup>334</sup>RGBl. 1930 II, pp. 438-444.

<sup>335</sup>RGBl. 1924 II, p. 272.

<sup>336</sup>RGBl. 1930 II, pp. 440-442.

<sup>337</sup>RGBl. 1930 II, p. 359.

<sup>338</sup>RGBl. 1930 II, p. 369.

<sup>339</sup>RGBl. 1930 II, p. 777.

<sup>340</sup>RT-Bd. 439, Drucks. Nr. 1622, p. 14.

Table 3.4: Young Plan annuities

				Millions of Reichsmarks
September 1, 1929	to	March 31, 1930		676.9
April 1, 1930	"	" 31, 1931		1,641.6
" 1, 1931	"	" 31, 1932		1,618.9
" 1, 1932	"	" 31, 1933		1,672.1
" 1, 1933	"	" 31, 1934		1,744.9
" 1, 1934	"	" 31, 1935		1,807.5
" 1, 1935	"	" 31, 1936		1,833.5
" 1, 1936	"	" 31, 1937		1,880.3
" 1, 1937	"	" 31, 1938		1,919.8
" 1, 1938	"	" 31, 1939		1,938.1
" 1, 1939	"	" 31, 1940		1,983.4
" 1, 1940	"	" 31, 1941		2,096.1
" 1, 1941	"	" 31, 1942		2,114.6
" 1, 1942	"	" 31, 1943		2,131.9
" 1, 1943	"	" 31, 1944		2,128.2
" 1, 1944	"	" 31, 1945		2,141.4
" 1, 1945	"	" 31, 1946		2,137.7
" 1, 1946	"	" 31, 1947		2,133.4
" 1, 1947	"	" 31, 1948		2,149.1
" 1, 1948	"	" 31, 1949		2,143.9
" 1, 1949	"	" 31, 1950		2,240.7
" 1, 1950	"	" 31, 1951		2,283.1
" 1, 1951	"	" 31, 1952		2,267.1
" 1, 1952	"	" 31, 1953		2,270.1
" 1, 1953	"	" 31, 1954		2,277.2
" 1, 1954	"	" 31, 1955		2,288.5
" 1, 1955	"	" 31, 1956		2,283.7
" 1, 1956	"	" 31, 1957		2,278.1
" 1, 1957	"	" 31, 1958		2,285.7
" 1, 1958	"	" 31, 1959		2,317.7
" 1, 1959	"	" 31, 1960		2,294.5
" 1, 1960	"	" 31, 1961		2,304.4
" 1, 1961	"	" 31, 1962		2,322.2
" 1, 1962	"	" 31, 1963		2,314.1
" 1, 1963	"	" 31, 1964		2,326.5
" 1, 1964	"	" 31, 1965		2,326.0
" 1, 1965	"	" 31, 1966		2,352.7
" 1, 1966	"	" 31, 1967		1,566.9
" 1, 1967	"	" 31, 1968		1,566.1
" 1, 1968	"	" 31, 1969		1,575.9
" 1, 1969	"	" 31, 1970		1,589.2
" 1, 1970	"	" 31, 1971		1,602.9
" 1, 1971	"	" 31, 1972		1,613.1
" 1, 1972	"	" 31, 1973		1,621.5
" 1, 1973	"	" 31, 1974		1,624.9
" 1, 1974	"	" 31, 1975		1,627.6
" 1, 1975	"	" 31, 1976		1,634.2
" 1, 1976	"	" 31, 1977		1,637.9
" 1, 1977	"	" 31, 1978		1,644.6
" 1, 1978	"	" 31, 1979		1,654.7
" 1, 1979	"	" 31, 1980		1,659.6
" 1, 1980	"	" 31, 1981		1,670.5
" 1, 1981	"	" 31, 1982		1,687.6
" 1, 1982	"	" 31, 1983		1,691.8
" 1, 1983	"	" 31, 1984		1,703.3
" 1, 1984	"	" 31, 1985		1,683.5
" 1, 1985	"	" 31, 1986		925.1
" 1, 1986	"	" 31, 1987		931.4
" 1, 1987	"	" 31, 1988		897.8

Source: RGBl. 1930 II, pp. 110-113.

setz) of 30 August 1924,<sup>341</sup> analogous to the Reichsbahn debentures. The annual charge for servicing the resulting interest and redemption amounted to 300 million gold marks. They were raised on the basis of the *Gesetz zur Aufbringung der Industriebelastung (Aufbringungsgesetz)* of 30 August 1924<sup>342</sup> and the levy rate was set annually accordingly by implementing ordinances. The expert report of 7 June 1929 already stated that this “particular charge in no way differs from ordinary taxation save in the complications it involves in legislation and the machinery of collection.” It consequently recommended “that it be discontinued, and that its disappearance be taken into account in distributing the release from taxation”.<sup>343</sup>

Despite the relief envisaged by the Young Plan as early as June 1929, an annual amount of 300 million RM was still assumed when assessing the first part of the industrial levy in the *Verordnung über die Jahresleistungen nach dem Aufbringungsgesetze für das Kalenderjahr 1930 (Dreizehnte Durchführungsverordnung zum Aufbringungsgesetze)* of 9 January 1930.<sup>344</sup> Since its original purpose in favour of the reparations was about to be cancelled with the imminent agreement on the Hague Conference, in the supplement to the budget 1929 “these 150 million RM had been entered as revenue, since they are indispensable for balancing the Reich budget.”<sup>345</sup> This was approved by the *Gesetz über die Verwendung des ersten Teilbetrags der Aufbringungsleistung 1930* and a gradual reduction was promised along with a financial reform.<sup>346</sup> With the *Gesetz über die Erhebung der Aufbringungsumlage für das Rechnungsjahr 1930*, which was included in the funding proposals passed on 15 April 1930, the revenue of the industrial levy was now collected for the benefit of the Reich budget instead of the reparations.<sup>347</sup> At the same time, with the implementation of the New Plan, the industrial bonds were returned to Germany, destroyed, and preparations were made for the liquida-

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<sup>341</sup>RGBl. 1924 II, p. 257.

<sup>342</sup>RGBl. 1924 II, p. 269.

<sup>343</sup>RGBl. 1930 II, p. 444.

<sup>344</sup>RGBl. 1930 II, p. 14, RAnz. No. 12 of 15 January 1930.

<sup>345</sup>RT-Bd. 440, Drucks. Nr. 1725.

<sup>346</sup>RGBl. 1930 II, p. 679.

<sup>347</sup>RGBl. 1930 I, p. 141.

tion of the *Bank für deutsche Industrie-Obligationen* (Bank for German Industrial Bonds)<sup>348</sup> and the public charge distributed among enterprises was cancelled.<sup>349</sup>

The Young Plan brought no relief in terms of public charges, neither by replacing the interest and redemption services on German Railway Bonds with a direct tax on the Reichsbahn in the same amount nor by eliminating the industrial obligations. The *Aufbringungsumlage* was still levied and used to balance the skewed budget. Its slight decrease will be discussed among the funding proposals for the 1930 budget. The adoption of the New Plan meant above all that the pressure to make further spending cuts was reduced and a “budget collapse”<sup>350</sup> was avoided.

### **Funding proposals for fiscal year 1930/31**

On 15 April 1930, several laws were passed, the majority of which were intended to raise additional tax revenue to cover the budget. Finance Minister Moldenhauer explained the motives in the second deliberation of the bills concerning customs changes, tobacco and sugar tax, beer tax, spirits monopoly, mineral water tax and the industrial charges for 1930: “Already at the first reading I pointed out that these tax bills are only one part of a large financial programme. These tax bills have the task of covering the deficit which arose when the budget for 1930 was drawn up and, at the same time, of continuing the tendency contained in the broad outlines of the financial programme of December 1929, namely, to transfer direct taxes to indirect taxes, so as to achieve, at the same time as reducing expenditure, a lightening of the heavy burden resting on the economy, in particular, a lightening of the heavy pressure of real taxes, which threaten the middle classes and their existence.”<sup>351</sup>

In particular, he singled out the beer tax and turnover tax increases. “The parties behind the government have agreed in their large majority on a compromise, the essential part of which is that instead of a beer tax increase of 75 per cent, one of 50 per cent will be provided. In exchange, the turnover tax will be increased generally by 0.10 per cent, from 0.75 to 0.85, and for large turnover, as

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<sup>348</sup>RGBl. 1930 II, p. 783.

<sup>349</sup>RGBl. 1930 II, p. 949; RAnz. 1930 No. 153 of 4 July 1930.

<sup>350</sup>RT-Bd. 427, p. 4173.

<sup>351</sup>RT-Bd. 427, pp. 4861-4862.



detailed in the motion, to 1.25 per cent.”<sup>352</sup> The beer tax increase, which came into force on 1 May 1930,<sup>353</sup> was expected to generate additional revenue of 150 million RM.<sup>354</sup> The increase in turnover tax,<sup>355</sup> which came into effect on 1 April 1930, was expected to generate 137 million RM in additional revenue; 110 million of this was to come from the general turnover tax and 27 million from the increased turnover tax, which was to apply to companies with an annual turnover of more than 1 million RM.<sup>356</sup> Similarly, Reich Finance Minister Moldenhauer remarks in the Reichstag: “The most substantial increase is in the turnover tax (...). Of this increase, 137 million falls to the increase in the sales tax rate and the increased sales tax for larger businesses.”<sup>357</sup>

The newly introduced excise duty on mineral water and lemonades,<sup>358</sup> which took effect from 16 May 1930, had been estimated at 35 million RM.<sup>359</sup> The explanatory memorandum states: “The Reich Government is of the opinion that in the present financial emergency of the Reich, mineral waters and artificially prepared beverages must also be taxed at a moderate rate, especially as the wine-based beverage which competes with them first, beer, must put up with a considerable increase in tax.”<sup>360</sup>

Also a *Gesetz über Zolländerungen* was promulgated on 15 April 1930.<sup>361</sup> Article 1 contained the increase in customs duties for mineral oil, which was expected to generate an additional revenue of 65 million RM. Reich Finance Minister Moldenhauer attributed the estimated increase in customs duties “in the amount of 65 million to an increase in mineral oil duties”.<sup>362</sup> Article 3 provided for a “equalisation tax on mineral oils (mineral oil tax)”, i.e. a newly introduced excise tax on mineral oils, light coal tar oils or similar. Its revenue was estimated at 12

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<sup>352</sup>RT-Bd. 427, p. 4863.

<sup>353</sup>RGBl. 1930 I, p. 136.

<sup>354</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1930, pp. 4, 8-9, 28-29.

<sup>355</sup>RGBl. 1930 I, p. 137.

<sup>356</sup>RT-Bd. 441, Drucks. Nr. 1993, p. 13, 24.

<sup>357</sup>RT-Bd. 427, p. 5019.

<sup>358</sup>RGBl. 1930 I, p. 139.

<sup>359</sup>RT-Bd. 441, Drucks. Nr. 1993, p. 13.

<sup>360</sup>RT-Bd. 440, Drucks. Nr. 1757, pp. 3-4.

<sup>361</sup>RGBl. 1930 I, p. 131.

<sup>362</sup>RT-Bd. 427, p. 5019.

million RM.<sup>363</sup> In sum, these two changes were expected to raise 77 million RM in additional tax revenue. The mineral oil tax came into effect from 1 May, the tariff change for mineral oil already from 18 April 1930. With the same law, Article 4 reduced the surcharge on motor vehicle tax as of 1 April 1930. For the financial year it was lowered to 10 per cent, compared to 15 per cent in 1929. “It is intended (...) to be content with a surcharge on motor vehicle tax of 10 per cent for the budget year 1930. This would be the first step towards a reform of the motor vehicle tax, in which not only the one or other technical feature of the motor vehicle itself, but also the operating cost consumption would serve as a yardstick for taxation.”<sup>364</sup> For 1929, the surcharge had been stated at 27 million RM, but for 1930, due to the above-mentioned change in the law, the estimate was initially 21 million RM, implying a shortfall of 6 million RM.<sup>365</sup>

Another law of 15 April 1930, the *Gesetz zur Änderung des Tabak- und Zuckersteuergesetzes*<sup>366</sup> which was intended to cover the Reich budget, provided for the change in payment deadlines for sugar and tobacco tax. The changes came into force on 1 May and were limited to the financial year 1930/31. The explanatory memorandum summarises the laws purpose: “If certain additional revenue is to be obtained from the tobacco and sugar taxes for a limited period, the way to do this is to continue to shorten the payment periods provided for in Section 12 of the Tobacco Tax Act and Section 7 of the Sugar Tax Act, as has already been done several times in the case of the tobacco tax.”<sup>367</sup> In total, an additional revenue of 27 million RM should be generated due to the shortening of the payment periods.<sup>368</sup>

In addition to these tax increases, the *Gesetz über die Erhebung der Aufbringungsumlage für das Rechnungsjahr 1930*<sup>369</sup> of 15 April 1930 continued to raise the industrial levy despite the Young Plan’s recommendations for abolition and the Reich government’s conviction “that the industrial charges must be phased out”. While a bill for the phased abolition was in preparation, the only urgent

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<sup>363</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1930, pp. 8-9.

<sup>364</sup>RT-Bd. 440, Drucks. Nr. 1755, p. 2.

<sup>365</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1931, pp. 22-23.

<sup>366</sup>RGBl. 1930 I, p. 135.

<sup>367</sup>RT-Bd. 440, Drucks. Nr. 1756, p. 2.

<sup>368</sup>RT-Bd. 441, Drucks. Nr. 1993, p. 13; Bd. 427, p. 5016.

<sup>369</sup>RGBl. 1930 I, p. 141.

matter was the regulation of the amount of the industrial charges in the 1930 fiscal year, “since they are to form a component in covering the 1930 budget.”<sup>370</sup> For 1930, a total of 350 million RM were to be raised, of which 70 million were to be drawn from the reserve fund of the *Bank für deutsche Industrie-Obligationen* (Bank for German Industrial Bonds).<sup>371</sup> Effectively 280 million RM were payable, which corresponded to a relief of 50 million RM as of 1 April 1930 compared to the previous amount to be raised of 330 million RM for the benefit of the reparation creditors and the reserve fund of the *Bank für deutsche Industrie-Obligationen*.<sup>372</sup> The collection was regulated according to the *Verordnung über die Aufbringungsumlage für das Rechnungsjahr 1930 (Vierzehnte Durchführungsverordnung zum Aufbringungsgesetz)* of 1 July 1930.<sup>373</sup> For the 1931 financial year, the burden was to be reduced by a further 50 million RM as of 1 April 1931 to 230 million. Of these, 50 million RM were designated for debt rescheduling in the eastern border areas according to the *Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen* of 1 December 1930.<sup>374</sup> These provisions were taken into account in the subsequent gradual reduction of the industrial burdens, which was passed on 31 March 1931 as the *Gesetz über die Abwicklung der Aufbringungsumlage und die Neugestaltung der Bank für deutsche Industrieobligationen (Industriebankgesetz)*, while the 180 of 230 million RM of the proceeds remaining were allocated to the Reich budget.<sup>375</sup> As early as 1932, the levy was reduced to 100 million RM. The initially transitory reduction is discussed in the context of the *Verordnung des Reichspräsidenten über Maßnahmen zur Erhaltung der Arbeitslosenhilfe und der Sozialversicherung sowie zur Erleichterung der Wohlfahrtslasten der Gemeinden* of 14 June 1932.<sup>376</sup> Table 3.5 shows the actual and originally intended gradual reductions in the annual collection between 1930 and 1936 and goes into the use of funds.

<sup>370</sup>RT-Bd. 440, Drucks. Nr. 1763, p. 2.

<sup>371</sup>Of the 70 million RM that accrued to the Reich in the 1930 financial year from the reserve fund of the *Bank für deutsche Industrieobligationen* under the industrial levy, 50 million were transferred to the unemployment insurance, the *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung (RfAA)*. RGBl. 1930 I, p. 145.

<sup>372</sup>RT-Bd. 440, Drucks. Nr. 1763, p. 3.

<sup>373</sup>RGBl. 1930 I, p. 196.

<sup>374</sup>RGBl. 1930 I, p. 580.

<sup>375</sup>RGBl. 1931 I, p. 124.

<sup>376</sup>RGBl. 1932 I, p. 273.

Table 3.5: Scheduled and amended reduction of the annual Industrial Charges (in million RM)

	Gesetz über die Erhebung der Aufbringungsumlage für das Rechnungsjahr 1930 <sup>1)</sup> <i>Vom 15. April 1930</i>	Gesetz über die Abwicklung der Aufbringungsumlage und die Neugestaltung der Bank für deutsche Industrieobligationen (Industriebankgesetz) <sup>2)</sup> <i>Vom 31. März 1931</i>	Verordnung des Reichspräsidenten über Maßnahmen zur Erhaltung der Arbeitslosenhilfe und der Sozialversicherung sowie zur Erleichterung der Wohlfahrtslasten der Gemeinden. <sup>3)</sup> <i>Vom 14. Juni 1932</i>	Gesetz über die Höhe der Aufbringungsumlagen <sup>4)</sup> <i>Vom 30. Mai 1933</i>
1930	<b>280<sup>a</sup></b>			
1931	<b>230</b>	<b>230<sup>b</sup></b>		
1932		<i>200<sup>b</sup></i>	<b>100<sup>d</sup></b>	
1933		<i>180<sup>c</sup></i>		<b>100<sup>e</sup></b>
1934		<i>140<sup>c</sup></i>		<b>100<sup>e</sup></b>
1935		<i>100<sup>c</sup></i>		<b>100<sup>e</sup></b>
1936		<i>60<sup>c</sup></i>		<b>100<sup>e</sup></b>

*Notes:* While the annual sums actually applied to raise the industrial levy are printed in bold letters, those originally intended are printed in italics.

<sup>a</sup> The annual amount of the industrial levy was set at 350 million RM for the fiscal year 1930. Thereof, 70 million RM were covered by a transfer from the equalisation and security reserve of the Bank für deutsche Industrie-Obligationen (Bank for German Industrial Bonds) to the Reich.

<sup>b</sup> In the fiscal year 1931, 180 and in 1932 80 million RM were to be allocated to the Reich budget. The remaining 50 million RM in 1931 and 120 million RM in 1932 were to benefit the German economy, especially agriculture in the eastern parts of the country.

<sup>c</sup> In the fiscal years 1933 to 1936, the entire revenue was to be used exclusively for the benefit of the German economy, especially agriculture in the eastern parts of the country.

<sup>d</sup> In the fiscal year 1932, 40 million RM were to be allocated to the Reich budget. 60 million RM were to flow into the Bank für deutsche Industrie-Obligationen, 45 of which were to be used for agricultural debt relief in the eastern areas and 15 for lending to small and medium-sized enterprises.

<sup>e</sup> In the fiscal years 1933 to 1936, 100 million RM were to flow into the Bank für deutsche Industrie-Obligationen, 80 of which were to be used for agricultural debt relief in the eastern areas and 20 for lending to small and medium-sized enterprises. In the event of a shortfall in receipts, the Reich would reimburse the Bank für deutsche Industrie-Obligationen for the difference to the estimated 100 million RM. Any excess proceeds would remain with the Reich.

*Sources:*

<sup>1)</sup> RGBl. 1930 I, p. 141.

<sup>2)</sup> RGBl. 1931 I, p. 124.

<sup>3)</sup> RGBl. 1932 I, p. 273.

<sup>4)</sup> RGBl. 1933 I, p. 315.

With the previously mentioned legislative changes, the *Gesetz zur Änderung des Gesetzes über das Branntweinmonopol*, which came into force on 20 May 1930, also introduced a tax on the substitution of spirits (Branntweinersatzsteuer).<sup>377</sup> It was an excise duty on substances containing wine spirits with an initial revenue estimated to be 0.5 million RM. According to the explanatory memorandum to the law, “the revenue of the tax, which is also justified in this respect to compensate for the monopoly burden, will remain within moderate limits and will probably not exceed the amount of 500,000 RM. The financial importance of the tax will mainly lie in the fact that it will avoid the otherwise unavoidable strong reduction of the generally declining revenues from the spirit monopoly.” The Committee on Tax Matters requested the Reich Government “to take measures as soon as possible to eliminate the serious damage to German viticulture and German spirits production caused by highly spirited wines and similar substances”.<sup>378</sup> With § 159 f and g, the law also contains measures to counteract tax avoidance.

One could also categorise the measures described above, which accompany the amendment of the Spirits Monopoly Act, as measures to combat tax avoidance and thus as exogenous (X), ideological (IL) measures, but since they are related to the measures of 15 April 1930, which were ultimately intended to cover the 1930 budget, all measures are categorised as endogenous (N), deficit reduction (DR).

### **Emergency decree of 16/26 July 1930**

On 16 July 1930, a *Verordnung des Reichspräsidenten auf Grund des Artikel 48 der Reichsverfassung über Deckungsmaßnahmen für den Reichshaushalt 1930* was issued,<sup>379</sup> which was repealed by parliament and re-enacted in almost the same way on 26 July 1930 after the dissolution of the Reichstag. It was now called the *Verordnung des Reichspräsidenten zur Behebung finanzieller, wirtschaftlicher und sozialer Notstände*<sup>380</sup> and brought about changes in social insurance, tobacco tax and income tax, as well as a levy on public servants. In the explanatory memorandum, the deficits and the proposals for covering them for the 1930 financial

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<sup>377</sup>RGBl. 1930 I, p. 138.

<sup>378</sup>RT-Bd. 441, Drucks. Nr. 1924, p. 1.

<sup>379</sup>RGBl. 1930 I, p. 207.

<sup>380</sup>RGBl. 1930 I, p. 311.

year were set out. “The government considers it necessary to cover the shortfall (...) in full as soon as possible.” To achieve this goal, savings in the form of spending cuts and additional revenue in the form of tax increases were envisaged. Additional revenue was to be generated through the *Reichshilfe*, a levy on public servants, a surcharge on income tax from an income above 8,000 RM, a tax on single persons and a change in the due date of the cigarette tax.

Title 1 and Title 2 of Section 1, *Reichshilfe der Personen des öffentlichen Dienstes*, include provisions for a contribution to be levied on the income of persons in the public service between 1 September 1930 and 31 March 1931 at the rate of 2½ per cent. “The financial result of the Reichshilfe is estimated at about 135 million RM for eight months.”<sup>381</sup> This figure is equivalent to a full-year estimate of 202.5 million RM.

The third title of the first section, *Zuschlag zur Einkommensteuer für die Einkommen von mehr als achtausend Reichsmark*, of the above-mentioned decree aims at a “surcharge on income tax for incomes of more than eight thousand Reichsmark”. For incomes above 8,000 RM, a surcharge of 5 per cent of the income tax finally assessed for 1929 is levied for the benefit of the Reich for the fiscal year 1930/31. The reasons are as follows: “Even if the income tax rate can generally be regarded as excessive and its reduction is absolutely necessary in the foreseeable future, a surcharge of 5 per cent can still be regarded as tolerable in the present exceptional emergency of the Reich.”<sup>382</sup> This surcharge was expected to generate 58 million RM in revenue.<sup>383</sup>

A fourth title, *Zuschlag zur Einkommensteuer der Ledigen*, of the first section of the ordinance deals with the “Surcharge on the Income Tax of Single Persons”. According to its provisions, a surcharge of 10 per cent in favour of the Reich was to be levied on the income tax of single persons (including widows and divorced persons without children) as of 1 September 1930. The justification for this surcharge for single persons was as follows: “Like every tax, the so-called single tax primarily serves to generate income. (...) The (...) essential point of view for us, under which the single tax is introduced, is of a tax-political nature. The justifica-

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<sup>381</sup>RT-Bd. 443, Drucks. Nr. 2247, p. 10.

<sup>382</sup>RT-Bd. 443, Drucks. Nr. 2247, p. 8.

<sup>383</sup>RT-Bd. 443, Drucks. Nr. 2247, p. 14.

tion for a single tax is found solely in the fact that a single person is fiscally more capable than another person who has to care for a family, with the same high income.”<sup>384</sup> In addition to its motivation, the bill contains a tax estimate: “In the case of single wage taxpayers, the revenue from the abolition of the deduction and a 10 per cent surcharge for wages above 2640 RM is estimated at 132 million RM per year. (...) For single assessed income taxpayers, the revenue from the abolition of the deduction and the 10 per cent surcharge on incomes above 2160 RM is estimated at 31.5 million RM.”<sup>385</sup>

The bill presented to the cabinet in June 1930 states the following with regard to the reasons for and the quantitative effect of the reduction in the payment period of the tobacco tax: “The development of the economic situation makes it appear questionable to approach an increase in the tax rates at the present time in order to achieve additional revenue from tobacco. (...) However, it is possible to achieve a one-off additional revenue from the taxation of cigarettes without increasing the tax rates as soon as possible, because the payment period of about two months for this tobacco product for the payment of the tax stamp value considerably exceeds the practical need. Article I of the draft takes this into account by limiting the payment period to the actual need, which is essentially less than one month, whereby No. II, in view of the financial situation of the Reich, provides for the coverage of the entire additional payments resulting from the shortening of the payment period during the current fiscal year, and also prevents a possible advance supply of tax stamps obtained by taking advantage of the currently valid payment period. From this, an additional revenue of about 50 million RM can be expected for the financial year 1930, without having to fear a decline in sales, because the measure will not lead to an increase in the retail price of cigarettes.”<sup>386</sup> In the Reichstag bill of early July 1930 there was a slightly different estimate of the additional revenue of 48 million RM from this measure, which I will use in the dataset.<sup>387</sup>

As far as social insurance is concerned, in unemployment insurance (Fourth Section, Article 2, p. 321) the contribution rate was increased from 3.5 to 4.5

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<sup>384</sup>RT-Bd. 443, Drucks. Nr. 2247, p. 11.

<sup>385</sup>RT-Bd. 443, Drucks. Nr. 2247, p. 14.

<sup>386</sup>BA R 43-I/2412, Blatt 72.

<sup>387</sup>RT-Bd. 443, Drucks. Nr. 2247, p. 15, 17.

per cent. This provision came into force as of 1 August 1930. The draft amendment to the law was explained in more detail by the Ministerial Director of the Reich Ministry of Labour. “With regard to the financial picture, he stated that the Reichsanstalt would have a deficit of 443 million Reichsmarks if the present legal regulation were to continue unchanged, based on an annual average of 1.6 million main support recipients to be permanently provided for. (...) A 1% increase in contributions would bring in a further 194 million for 8 months in which the increased contributions are received.”<sup>388</sup> Extrapolated to a full year, the increase in the contribution rate should thus raise 291 million RM. Although the Reichsanstalt’s needs for unemployment welfare were higher, the increase in contributions reduced the Reich subsidy to it.

I classify all the above measures that fall within the scope of the Emergency Decree of 16 and 26 July 1930 as endogenous (N), deficit reduction (DR), since they were intended as measures to cover the Reich budget.

### **Individual tax changes - August to November 1930**

On 26 September 1930, a *Verordnung über Änderung des Zollsatzes für Weizen und Spelz* was issued, which took effect on 28 September 1930. The duty rate for wheat and spelt was raised to 18.50 RM per quintal.<sup>389</sup> With regard to grain policy, the Reich Ministry of Food and Agriculture stated in its “Justification for an Increase in the Wheat Duty” that “new measures must be taken without delay to protect the German wheat harvest and its prices, otherwise there will be a catastrophe for German agriculture, which is suffering badly anyway”.<sup>390</sup> The protectionist measure was explained in more detail in the Cabinet: “The Reich Minister for Food and Agriculture pointed out the threatening situation into which the wheat market was being brought by the extremely cheap Russian offers (...). (...) In the explanatory memorandum, the REM had stated that world market prices for wheat had fallen by 50 to 100 RM per tonne between 1.1.-1.9.30; the fall in prices was due on the one hand to the very good American harvests, and on the other to the behaviour of Russia, which for political reasons was offering its wheat

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<sup>388</sup>BA R 43-I/1444, Blatt 22.

<sup>389</sup>RGBl. 1930 I, p. 458; RAnz. No. 226 of 27 September 1930, p. 1.

<sup>390</sup>BA R 43-I/2426, Blatt 35.



far below production costs. The price development for domestic wheat was equally unfavourable. (...) In order to protect agriculture, the action begun in April to detach German wheat from the fluctuations of the world market price by raising customs duties must be continued. (...) The Reich Minister of Finance supported the motion as one of the means in the fight against Russian dumping. (...) By raising the wheat tariff, an increase in Reich revenue of about 20 million RM is expected.”<sup>391</sup> Since the purpose of the legislative measure was to protect German agriculture from foreign competition, I classify it as exogenous (X), ideological (IL).

Another change in the social insurance system took place on 30 September 1930. The *Verordnung über den Beitrag zur Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*, which was applicable from 6 October 1930, raised the contribution rate to the unemployment insurance from 4½ to 6½ per cent of the relevant wage.<sup>392</sup> “As a result of the known, extremely unfavourable development of the labour market, an additional requirement will arise in the 1930 financial year which has not yet been covered, despite the savings measures of the emergency decree of 26 July 1930 and despite the increase in contributions to 4½ %.” Since the Reich had to contribute half of the uncovered additional needs of the Reichsanstalt, a cover had to be found for the 203 million Reich subsidy missing in the budget year. “The shortfall of 203 mill. RM would be approximately covered if the contribution rate, which is now 4 ½ per cent, were increased to 6 ½ per cent from 1 October 1930 onwards. The increase of the contribution by 2 per cent would bring an additional monthly receipt of about 44 million RM.” This would make up for the shortfall as far as possible, as the additional revenue would only have an effect for 4½ months in the financial year due to an expected 6-week delay in receipts.<sup>393</sup> Monthly additional contributions in the amount of 44 million RM due to the contribution increase of 2 per cent are equivalent to 528 million RM for the entire year. Since the measure aims to make up for contribution shortfalls in the unemployment insurance, I classify it as an endogenous (N), deficit reduction (DR).

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<sup>391</sup>AdRk Brüning I/II, Band 1 (1930), Dok. Nr. 120.

<sup>392</sup>RGBL. 1930 I, p. 458.

<sup>393</sup>BA R 43-I/2038, Blatt 167-168.

A *Verordnung über die Aufhebung des Steuerabzugs vom Kapitalertrag und der beschränkten Steuerpflicht bei festverzinslichen Wertpapieren* was promulgated on 16 October 1930, which became effective as of 3 January 1931.<sup>394</sup> It concerns the partial abolition of the tax deduction from capital gains. According to §1 of this ordinance, the tax deduction from capital gains and the limited income tax and corporation tax liability ceased to apply to interest on bonds registered in public debt registers and to bonds over which partial debentures were issued as well as to income from preference shares of the *Deutsche Reichsbahn-Gesellschaft*. The estimated revenue loss associated with this measure is valued at 60 million RM.<sup>395</sup> “Numerous expert circles are of the opinion that the favourable effects intended by the abolition of the tax deduction from capital income, primarily the reduction of interest rates and the stimulation of the credit market for the building industry, would be jeopardised if securities subject to the tax deduction from capital income were still to exist in the longer term.” The aim is “to facilitate and cheapen the supply of credit to the German economy”.<sup>396</sup> The measure was intended to stimulate the credit market and encourage construction activity. The favourable conditions should encourage potential builders to take out loans. Accordingly, I classify the measure as endogenous (N), demand management (DM).

On 25 October 1930, a *Verordnung über Änderung der Zollsätze für Weizen, Spelz und Gerste* was issued.<sup>397</sup> The customs tariffs for the product groups described were raised with effect from 26 October 1930. This applied in particular to the wheat duty, which rose from 18.50 RM to 25 RM per quintal. The Reich Minister of Food and Agriculture, assuming an import of 400,000 tons of wheat, assumed an additional revenue of 26 million RM due to the tariff increase.<sup>398</sup> An indication of the classification is provided by the cabinet decision on the agricultural policy measures: “The wheat duty is increased to 25 RM. Durum wheat for the production of wheat semolina receives a duty of 11.25 RM. The wheat duty increase is to be put into effect immediately. The additional revenue from this duty increase is to go to the miners’ and invalids’ insurance to compensate

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<sup>394</sup>RGBl. 1930 I, p. 464.

<sup>395</sup>AdRk Brüning I/II, Band 1 (1930), Dok. Nr. 116.

<sup>396</sup>BA R 43-I/2406, Blatt 257.

<sup>397</sup>RGBl. 1930 I, p. 480.

<sup>398</sup>BA R 43-I/1447, Blatt 268.

for their shortfall in income from payroll tax.”<sup>399</sup> Since the miners’ and invalids’ insurance faced a shortfall due to the economic downturn and the loss of revenue from the reduction of the wage tax, I classify the measure as deficit reduction (DR), endogenous (N).

### Emergency decree of 1 December 1930

On 1 December, a *Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen* was promulgated based on Article 48 (2) of the Reich Constitution in the Reichsgesetzblatt.<sup>400</sup> It consisted of a total of nine parts; the numerically available and relevant fiscal measures are discussed below. Two days after the announcement of the decree, Reich Finance Minister Dietrich addressed the measures and their effects during the first deliberation of the budget for 1931/32. “The Reich Government is submitting to you the budget for the coming year 1931/32 at an unusually early time. The reason why we have endeavoured to get this budget through the Reichsrat and then to you, the Reichstag, as quickly as possible is that we must get out of the state of uncertainty in which we have been for a number of months, out of a state which has arisen in the current budget year because we have had to continue to make expenditures for which there was no cover in the budget at all.” Spending cuts, the reorganisation of unemployment insurance, the maintenance of emergency taxes and the development of new sources of revenue were pillars to “balance the budget”.<sup>401</sup>

In the second section of the emergency decree of 1 December 1930, measures were brought forward under the heading “Securing the Budget”.

With Chapter II of the second section, the *Reichshilfe* of 2½ per cent for persons in the public service, which had originally been introduced for the period between 1 September 1930 and 30 March 1931, was abolished.<sup>402</sup> Although this

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<sup>399</sup>BA R 43-I/1447, Blatt 96-98; in extracts in BA R 43-I/2426, Blatt 66. On 1 November, the Reich Ministry of Labour proposes the following deviating version: “Because of the loss that the miners’ pension insurance suffers in the implementation of the so-called Lex Brüning, this insurance receives the revenue from the customs surcharges decided today as compensation. The invalidity insurance has no share in this revenue.” This change request is rejected by the Reich Chancellery on 20 November. BA R 43-I/2426, Blatt 67-70.

<sup>400</sup>RGBL. 1930 I, p. 517.

<sup>401</sup>RT-Bd. 444, pp. 221-223.

<sup>402</sup>RGBL. 1930 I, p. 524, § 7.

levy was replaced by salary cuts of 6 per cent for public employees,<sup>403</sup> the repeal is to be treated methodically consistent as public relief. For the shortfall in revenue from the abolition, it is assumed that it corresponds to the expected additional revenue from the introduction of the *Reichshilfe* of 202.5 million RM.

Chapter III regulated the increase in tobacco tax for cigars, cigarettes and pipe tobacco and the rise in tobacco duty for various tobacco leaves, ribs, liquors and snuff from 1 January 1931.<sup>404</sup> Reich Finance Minister Dietrich explained that it had been decided to impose only a moderate tax on cigars and a heavier one on cigarettes, “as one of the best tax objects available to the German Reich”.<sup>405</sup> As early as 29 September 1930, the cabinet agreed to balance the Reich budget in 1931 and to achieve this, among other things, by increasing the tobacco tax by 167 million RM.<sup>406</sup> The later explanatory memorandum to the draft law states: “In order to balance the budget, it is not possible to completely abstain from generating additional revenue, despite observing the greatest thrift. Among the objects considered for this purpose, tobacco has shown that its absorption capacity has so far been relatively favourable compared to other consumer goods. Since the possibility of achieving additional revenue from its taxation is given, the Reich Government believes that it cannot be ignored in view of the financial necessity”.<sup>407</sup> The calculations showed that “the proposed tax increases would tentatively yield an additional revenue of only 167 million RM compared to the previous customs and tax revenue”.<sup>408</sup>

The two measures described, the abolition of the *Reichshilfe* and the increase in the tobacco tax, are to be classified as deficit reduction (DR), endogenous (N), since they are grouped under the heading “Securing the budget” in the second part.

Under the heading “Tax Simplification and Tax Unification”, the third part of the emergency decree included in particular changes to the wealth tax, income tax and turnover tax.<sup>409</sup> With regard to the idea of streamlining public admin-

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<sup>403</sup>RGBl. 1930 I, p. 522, § 1-6.

<sup>404</sup>RGBl. 1930 I, p. 524.

<sup>405</sup>RT-Bd. 444, p. 224.

<sup>406</sup>AdRk Brüning I/II, Band 1 (1930), Dok. Nr. 124, Anlage.

<sup>407</sup>BA R 43-I/1447, Blatt 181.

<sup>408</sup>BA R 43-I/1447, Blatt 184.

<sup>409</sup>RGBl. 1930 I, p. 530.

istration by simplifying tax legislation, the Reich Minister of Finance Dietrich stated the following: “The second task in which savings can be made is the reduction of administrative expenditure at the Ministry of Finance and the Ministry of Labour. (...) In the case of the Ministry of Finance, the question of how far our swollen apparatus can be reduced depends primarily on the question of tax simplification.”<sup>410</sup> The tax simplifications were as follows: “Now the most important measure we have taken to bring about simplification is first of all the exemption of assets up to 20,000 Reichsmarks from wealth tax, the exemption of tradesmen and farmers from turnover tax, provided they do not have a turnover of more than 5,000 Reichsmarks, and thirdly, unitary agricultural taxation.”<sup>411</sup>

With Chapter I of the third part, the exemption limit for wealth tax was increased from 5,000 RM to 20,000 RM as of 1 January 1931, and a new regulation for the taxation of net income from agriculture and forestry was established for income tax. In the same chapter, in connection with Chapter V, an exemption limit for turnover tax was introduced for small businesses with a turnover of less than 5,000 RM at a tax rate of 0.85 per cent. Furthermore, changes were made in the exemptions from turnover tax and the intermediate trade privilege was restricted to wholesalers from 1 January 1931.

On the quantitative impact, the Finance Minister remarked: “How much is lost in tax receipts? In wealth tax 16 to 18 million is lost, in agricultural income tax perhaps 40 million, in turnover tax also about 40 million, so that the total loss from these measures is about 100 million.”<sup>412</sup> A look at the explanatory memorandum to the draft of the turnover tax law shows that these tax losses are offset by small additional revenues. “The provision of § 3 No. 7 UStG. exempts the smallest enterprises from turnover tax. Even if there are certain reservations about such an exemption because of the passing on of the tax from the entrepreneur to the purchaser, these must be set aside in view of the urgently needed administrative simplification, especially since the tax revenue from the smallest enterprises is not consistent with the work and costs caused by their recording and assessment. (...) The exemption appears to be financially bearable, since the annual loss of about

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<sup>410</sup>RT-Bd. 444, p. 227.

<sup>411</sup>RT-Bd. 444, p. 227.

<sup>412</sup>RT-Bd. 444, p. 227.

40 million RM caused by it is partly compensated by the fact that an additional revenue of 16 million RM per year is to be expected by the amendment of § 7 UStG. provided for at the same time”.<sup>413</sup>

The measures on wealth tax, income tax and turnover tax taken within this part had simplification in mind, and are therefore classified as exogenous (X), long-run performance (LR).

### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *deficit reduction* (DR) classification.

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<sup>413</sup>BA R 43-I/2400, Blatt 175; R 43-I/1447, Blatt 229-230.

## 1931/32 Budget: 3 December 1930

*Reich Minister of Finance:* Hermann Dietrich (DDP);

*Chancellor of the German Reich:* Heinrich Brüning (Zentrum)

### Context

From the 2nd quarter of 1930, the German economy slid back into recession and GDP experienced its sharpest contraction in year-on-year growth rates at 16.5 per cent in the 1st quarter of 1931.<sup>414</sup> Private investment fell by 34.6 per cent and consumption by 8.6 per cent compared to the previous year.<sup>415</sup> At the turn of the year 1930/31, the unemployment rate rose to over 20 per cent, with 4 million unemployed for the first time in the first quarter of 1931. Due to the austerity policy introduced, the budget almost balanced again in the financial year 1930/31.<sup>416</sup> On 9 October 1930 the Reichsbank rose the Bank rate to 5 per cent. Deflation took off in 1930, reaching 7.6 per cent in the 1st quarter of 1931. The situation was similar for the money supply, which had decreased by 4.3 per cent compared to the previous year.<sup>417</sup>

The elections on 14 September 1930, made necessary by the dissolution of the Reichstag, brought considerable gains in votes for both the NSDAP and the KPD. This had no effect on the composition of the government, as regardless of party-political considerations, it was more dependent on the goodwill of the Reich President than on the approval of the Reichstag. The dependence was limited to the fact that the parliament could have repealed the presidential emergency decrees. Thus the Brüning I cabinet continued to function as a minority government with the acquiescence of the SPD, which aimed to prevent further dissolutions of parliament. “Everywhere economic life is faltering, unemployment is rising, incomes are falling,” stated Chancellor Brüning in his government declaration to the newly constituted Reichstag on 16 October 1930, and therefore the government had “drawn up a major economic and financial plan to overcome

<sup>414</sup>Based on Ritschl (2002b), Series C.2.3.

<sup>415</sup>Based on Ritschl (2002b), Series C.2.6 and C.2.1.

<sup>416</sup>Based on Ritschl (2002b), Series C.2.4.

<sup>417</sup>Based on Ritschl (2002b), Series C.2.5 and C.2.11.

the crisis”.<sup>418</sup> This included “a completely balanced budget for 1931, making unemployment insurance independent, thrift in all areas, including salaries, simplification of the official apparatus, especially in the area of tax administration, a tax policy that does not place an unbearable burden on the production process, but rather promotes the formation of capital, especially among small savers, and finally the preparation of a final financial equalisation between the Reich, the Länder and the municipalities”.<sup>419</sup> Furthermore, due to the decrease in tax receipts and the increase in the costs for the unemployed, there had been a further deficit in the budget, which was to be covered initially by a foreign bridging loan and, in addition to not repealing the emergency decree of 26 July 1930, was to ensure budgetary management in the fiscal year. With regard to price policy, it was necessary to “bring German prices into line with the world price situation” in order to favour “our economic recovery”.<sup>420</sup> With this speech Heinrich Brüning had outlined his intended deflationary policy, consisting of austerity measures and an internal devaluation, which he publicly promoted before on 30 September, since “not higher taxes, but austerity measures alone, relief, restoration of confidence, are the basic ideas that must guide us.”<sup>421</sup>

### **Overall budget objectives**

Immediately after the emergency decree of 1 December 1930, which included “the reduction of salaries, the continuation of part of the revenues which we have provided for the Reich by the decree of the summer, i.e. the increased income tax, the tax on single persons, the royalty tax, all three of which will be continued”, Reich Finance Minister Dietrich appeared before the Reichstag on 3 December to introduce the budget for the fiscal year 1931/32.<sup>422</sup> “The most important moment, however,” emphasised the Reich Minister of Finance with regard to the relationship between the deficit in the Reich budget and unemployment insurance, “which is to be noted in this new budget, is the fact that we have placed the unemployment insurance on its own feet, i.e. changed its connection with

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<sup>418</sup>RT-Bd. 444, p. 17.

<sup>419</sup>RT-Bd. 444, p. 18.

<sup>420</sup>RT-Bd. 444, p. 18.

<sup>421</sup>BA R 43-I/1446, Blatt 335.

<sup>422</sup>RT-Bd. 444, p. 222.



the budget insofar as we have increased the contributions to 6.5 per cent”.<sup>423</sup> In drawing up the budget, an attempt had been made to reduce the uncertainties by, on the one hand, expecting the unemployment insurance to be in balance with the contribution rate in place at present and, on the other hand, estimating the revenue from taxes and customs duties to be much lower in the year ahead. The remaining deficit could only be covered by indirect taxes, incorporated by an increase in tobacco tax, due to the “consistently held line of the Reich government, which seeks to avoid any burden on production”.<sup>424</sup> On the other hand, the administrative burden was considered to be too high, which was to be reduced, on the one hand, by replacing the Reich aid of public servants by a general reduction in civil servants’ salaries, but also, in particular, by tax simplifications, such as “the exemption of assets up to 20000 Reichsmarks from the wealth tax, the exemption of traders and farmers from the turnover tax, as long as they do not have a turnover of more than 5000 Reichsmarks, and thirdly, the agricultural unitary taxation.”<sup>425</sup> The Reich budget for the fiscal year 1931/32 is adopted by parliament on 25 March 1931<sup>426</sup> and the corresponding law is promulgated on 31 March.<sup>427</sup>

### Emergency decree of 5 June 1931

On 5 June 1931, the *Zweite Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen* was issued.<sup>428</sup> It comprised seven parts, with which revenue increases and expenditure cuts were to be brought about for the Reich, the Länder, the municipalities and the social insurances.

The budget for 1931, submitted in November 1930 and adopted in March 1931, was still overshadowed by the world economic crisis. Since it had not been possible to reduce expenditures to the extent that would have been necessary to balance the budget, and the continuing economic crisis would have led to a tax shortfall of around 940 million RM for the Reich, the Länder and the municipalities, the

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<sup>423</sup>RT-Bd. 444, p. 222.

<sup>424</sup>RT-Bd. 444, p. 223.

<sup>425</sup>RT-Bd. 444, p. 227.

<sup>426</sup>RT-Bd. 445, p. 2002.

<sup>427</sup>RGBl. 1931 II, p. 92.

<sup>428</sup>RGBl. 1931 I, p. 279.

additional way of increasing revenue had to be taken. Consequently, the government decided to increase the sugar tax, the mineral oil duties and the statistical levy, and to introduce a crisis tax. For the benefit of the municipalities, which were particularly burdened by the increased welfare costs caused by the crisis, the wage tax refund was abolished and both Länder and municipalities benefited from the transition to monthly payments for the turnover tax.<sup>429</sup> With the emergency decree, the Reich government published an appeal stating as follows: “After the implementation of the new emergency decree, the expenditures of the Reich, including the cutbacks from the previous year, will amount to the gigantic sum of more than 1.5 billion less. As far as can be predicted at all under the present circumstances, this will bring the Reich budget for the current year into balance. According to the firm will of the Reich government, this emergency decree is to be the last step towards this goal.”<sup>430</sup> Drawing on this explanation, the measures in this decree are to be classified as endogenous (N), deficit reduction (DR). This also becomes comprehensible on the basis of the justifications for the individual measures in the further course of the presentation of this emergency decree.

In the Second Part of the decree, which was entitled “Securing the Budget”, measures were taken to increase the Reich’s revenue by raising the sugar tax, the mineral oil duty and the statistical levy (Statistische Abgabe). Restoring the sugar tax rates in force until 1927, Chapter II of this part raised the rate from 10 to 21 RM per 100 kg as of 16 June 1931, while at the same time the tax exemption for bees’ sugar was abolished due to the disproportionate administrative burden.<sup>431</sup> For the remaining 9 months of the 1931 fiscal year, the expected revenue increase is given at 110 million RM.<sup>432</sup> Projected over a whole year, this results in an anticipated additional revenue of 146.67 million RM. With the succeeding Chapter III, mineral oil duties, with the exception of lubricating oils and light coal tar oils, were elevated from 10 to 17 RM per quintal as of 29 May 1931.<sup>433</sup> The additional revenue was estimated at 75 million RM for the remaining three quarters of the

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<sup>429</sup>BA R 43-I/1450, Blatt 27-28; R2/9863; Finanzieller Überblick über den Haushalt 1932, pp. 6-7.

<sup>430</sup>BA R 43-I/1450, Blatt 23.

<sup>431</sup>RGBl. 1931 I, p. 284; BA R 43-I/1449, Blatt 272.

<sup>432</sup>BA R 43-I/1449, Blatt 350; R2/9863; Finanzieller Überblick über den Haushalt 1932, p. 8.

<sup>433</sup>RGBl. 1931 I, p. 284; BA R 43-I/1449, Blatt 272.

1931 budget.<sup>434</sup> This figure is equivalent to a full year estimate of 100 million RM. With effect from 1 July 1931, Chapter VII imposed an increase in the statistical levy (Statistische Abgabe).<sup>435</sup> The draft of the decree states the following about this change: “Increase of the rates for the statistical levy by about double, because the levy previously only covered half of the costs of statistics on trade in goods with foreign countries. Additional revenue: 3 million RM”.<sup>436</sup> Since all the measures in this part served to cover the existing shortfall in the Reich budget, they are classified as endogenous (N), deficit reduction (DR).

Under the heading “Unemployment Assistance” of Part Three, a crisis tax was introduced by Chapter III for the period from 1 July 1931 to 31 December 1932.<sup>437</sup> This tax was divided into the crisis wage tax levied on employees in the same way as the wage tax deduction and in the crisis tax imposed on assessed income taxpayers together with the income tax. The crisis wage tax for wage and salary earners of 1 to 5 per cent graduated according to the amount of the gross wage was already abolished by the emergency decree of 14 June 1932 in favour of a levy for unemployment assistance as of 1 July 1932.<sup>438</sup> The rate of the crisis tax on the assessed was lower than that of the crisis wage tax, ranging from 0.75 to 4 per cent of income. On the basis of the above-mentioned emergency decree, it was extended until 31 March 1933 by a further instalment and integrated into the income tax in 1933. There was a double imposition for assessed wage earners with an earned income of more than 16,000 RM for whom the crisis tax of the assessed was added to the crisis wage tax.<sup>439</sup> The introduction of the crisis tax was justified, among other reasons, by the continuing deficit in crisis welfare despite the previously implemented reforms. “In addition to covering the deficits of the social insurance carriers, however, the Reich government sees its primary task, within the framework of its economic programme, in stimulating the economy and reducing the number of unemployed. For this, however, special means and funds are absolutely necessary. The revenue from the crisis tax is to

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<sup>434</sup>BA R 43-I/1449, Blatt 350; R2/9863; Finanzieller Überblick über den Haushalt 1932, p. 8.

<sup>435</sup>RGBl. 1931 I, p. 291.

<sup>436</sup>BA R 43-I/1449, Blatt 274.

<sup>437</sup>RGBl. 1931 I, p. 298.

<sup>438</sup>See also RGBl. 1932 I, pp. 273, 280, 283.

<sup>439</sup>RT-Bd. 451, Zu Drucks. Nr. 1062, pp. 7-9; also in BA R 43-I/1450, Blatt 31-33.

serve these purposes.” The levying of the crisis tax, i.e. “a further increase in income tax”, was also justified by the fact that it was necessary “to maintain orderly conditions” in a situation of a large number of unemployed, on the one hand to secure their subsistence level and on the other hand to stimulate the labour market.<sup>440</sup> Thus it is stated that “the Reich government will use funds from the crisis tax to procure further employment opportunities”.<sup>441</sup> In the Financial Overview of the Budget for 1932, the coverage gap in crisis welfare is emphasised even more explicitly: “In order to be able to maintain the crisis welfare, the crisis tax was introduced to cover the shortfall and justified by the fact that all national comrades (Volksgenossen) must contribute to mitigating the catastrophe that has befallen the country in the form of unemployment, according to their ability to pay.”<sup>442</sup> The annual revenue from the crisis wage tax was estimated at 340 million RM, while that from the crisis tax on assessed persons was projected at 156.8 million RM.<sup>443</sup> The measure could be classified as spending-driven (SD), endogenous (N) as it served to provide funds for public job creation schemes. However, since it was originally initiated to cover the shortfall in crisis welfare, I classify it as endogenous (N), deficit reduction (DR).

In the Fourth Part, which dealt with the “Welfare Burdens of the Municipalities and Municipal Associations”, Chapter I abolished the wage tax refund in favour of the municipalities as of the calendar year 1931.<sup>444</sup> Due to the continuing increase in the number of welfare unemployed, only about half of the expenditures for welfare burdens would be covered by the budgets of the municipalities in the accounting year 1931, so that “the alleviation of the welfare burdens of the municipalities and municipal associations was a particularly material task”. The abolition of the refund of wage tax as a measure to this end was justified in a press release as follows: “If the entire course of business of the tax offices is not to be permanently paralysed and in particular if the assessment work of the physical persons and corporations is not to suffer, the refunds can no longer be carried out. However, the amount thus saved is not to go to the general budget, but is

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<sup>440</sup>RT-Bd. 451, Zu Drucks. Nr. 1062, p. 7; also in BA R 43-I/1450, Blatt 31.

<sup>441</sup>RT-Bd. 451, Zu Drucks. Nr. 1062, p. 4; also in BA R 43-I/1450, Blatt 26.

<sup>442</sup>BA R2/9863; Finanzieller Überblick über den Haushalt 1932, p. 8.

<sup>443</sup>BA R 43-I/1449, Blatt 296-299.

<sup>444</sup>RGBl. 1931 I, p. 302.

to be transferred to the municipalities to alleviate their welfare burdens, and in fact to the full amount, i.e. also the Reich's share. In this way it is achieved that the amounts which are essentially refunded because of partial unemployment of the individual worker are transferred to the large aid scheme for the unemployed at the municipalities."<sup>445</sup> The extent of the wage tax refund and the intention of its abolition were already stated in the explanatory notes of the draft submitted to the Cabinet on 29 May 1931: "The wage tax refunds, which amount to 60 to 80 million RM annually and are distributed among about 4 million employees, are to be abolished. However, the amount thus saved is not to be allocated to general financial needs, but is to be paid out to the municipalities for the purposes of welfare burdens on the unemployed according to a certain key."<sup>446</sup> The distribution to the municipalities was to take into account only those whose expenses amounted to only what was absolutely necessary, who had fully exhausted their taxation possibilities and who allowed themselves to be subjected to an independent audit of their finances.<sup>447</sup> Since deficits of municipal budgets are to be reduced by the abolition of the tax refund, the classification is endogenous (N), deficit reduction (DR).

### Individual tax changes

A *Verordnung über monatliche Voranmeldungen und monatliche Vorauszahlungen bei der Umsatzsteuer* was issued on 25 June 1931, which came into force on 10 November 1931.<sup>448</sup> Taxpayers whose turnover in the previous year had exceeded the amount of 20,000 RM were henceforth obliged to pay the turnover tax in advance on a monthly basis. The transition to monthly payments for turnover tax had already been discussed in the cover proposals for the 1931/32 budget within the framework of the emergency decree of 5 June 1931, but was only implemented with this decree.<sup>449</sup> "This resulted in an additional revenue of 80 million RM for the Reich and 35 million RM for the Länder for the end of the financial year."<sup>450</sup>

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<sup>445</sup>BA R 43-I/1450, Blatt 33.

<sup>446</sup>BA R 43-I/1449, Blatt 279.

<sup>447</sup>BA R 43-I/1450, Blatt 33.

<sup>448</sup>RGBl. 1931 I, p. 345.

<sup>449</sup>BA R 43-I/1449, Blatt 351.

<sup>450</sup>BA R2/9863; Finanzieller Überblick über den Haushalt 1932, p. 8.

As this provision served to balance the budget, it is therefore to be classified as an endogenous (N), deficit reduction (DR).

### **The Hoover Moratorium - London Protocol of 11 August 1931**

Under the impression of capital withdrawals from Germany and a threatened transfer stop of reparations to the creditor governments by the Reich, the President of the United States of America, Herbert Hoover, proposed on 20 June 1931 a one-year postponement of all principal and interest payments on inter-allied war debts and reparations due between 1 July 1931 and 30 June 1932. While “a variety of causes arising out of the depression such as the fall in the price of foreign commodities and the lack of confidence in economic and political stability abroad there is an abnormal movement of gold into the United States which is lowering the credit stability of many foreign countries” so that the “fabric of intergovernmental debts, supportable in normal times, weighs heavily in the midst of this depression”. The moratorium “should contribute to relieve the pressure of these adverse forces in foreign countries and should assist in the reestablishment of confidence, thus forwarding political peace and economic stability in the world” and is intended to “give time to permit debtor governments to recover their national prosperity”.<sup>451</sup>

Although the moratorium was intended to show the “willingness to make a contribution to the early restoration of world prosperity in which our own people have so deep an interest”,<sup>452</sup> President Hoover stressed that the US were not involved in the issue of German reparations and that the moratorium was not a precursor of the cancellation of intergovernmental war debts. However, Hoover’s proposal was subject to approval by both Congress and the creditor governments in order to enter into force and allow Germany to participate in the relief. The Congress would not convene until December 1931 and an emergency meeting was not intended to be called. Both the House of Representatives and the Senate adopted the War Debt Moratorium bill not until late December 1931 with an amendment accentu-

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<sup>451</sup>United States. President (1929-1933: Hoover) (1976) Item 238, p. 322.

<sup>452</sup>United States. President (1929-1933: Hoover) (1976) Item 238, p. 323; Item 239, p. 327.

ating the renunciation of inter-governmental debt cancellations<sup>453</sup> and increasing the interest rate on deferred payments from 3 to 4 per cent.<sup>454</sup> The increase in the interest burden on inter-allied war debts was passed on to Germany mid-1932.<sup>455</sup> More pressing in the summer of 1931 was the consent of the reparation creditors. In particular, France was opposed to deferring the unprotected part of the German annuity. The concessions made in the French-American Agreement of 6 July 1931 to bring the Hoover year into effect as quickly as possible prefigured much of the London Protocol of 11 August 1931 between Germany, Belgium, the United Kingdom, Canada, Australia, New Zealand, South Africa, India, France, Greece, Italy, Japan, Poland, Portugal, Romania and Czechoslovakia while matters of detail were referred to a committee of experts and were put back into the responsibility of the nations involved in the reparations issue “which shall reconcile the material necessities with the spirit of President Hoover’s proposal”.<sup>456</sup>

In the Committee of Experts, which met from 17 July to 3 August 1931, it was agreed that the conditional part of the German annuity, which was to be paused for one year, should be repaid between 1 July 1933 and 1943, together with interest at the rate of initially intended 3 per cent.<sup>457</sup> For the unconditional part of the annuity, which was raised by the reparation tax on the Reichsbahn, it was agreed that the German Railway Company would be exempted from this charge for the period of the moratorium. Instead, the Reich was to pay 51 million RM monthly to the BIS, which in turn, after servicing the German Government International 5½ per cent Loan of 1930, was to reloan 45 million RM to the German Railway Company on the same day. The conditions for the repayment of this loan from the BIS to the Reichsbahn were the same as for the deferred annuity.<sup>458</sup> Already during the London Conference, the German Reichsbahn and the Reich Ministry of Finance agreed that the BIS loan should be passed on back to the Reich. It was not until the end of October 1931 that a final settlement

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<sup>453</sup>United States. Congress (1931: 72nd Congress) (1932), pp. 793-867, 1071-1126; FRUS 1931 vol. I, Document 207.

<sup>454</sup>United States. Committee on Finance (1931: 72nd Congress) (1931, 1932).

<sup>455</sup>Great Britain. Foreign Office (1932b).

<sup>456</sup>FRUS 1931 vol. I, Document 100, pp. 162-163; see also Document 101.

<sup>457</sup>Great Britain. Foreign Office (1931), p. 397.

<sup>458</sup>Great Britain. Foreign Office (1931), Annex I; Bank for International Settlements (1932), pp. 22-23.

was reached on the question of the extent to which the Reichsbahn should benefit from the transitional relief. It was settled that “in addition to the transfer of the BIS loan to the Reich [...] the Reichsbahn will participate in the cash payments for reparation purposes during the Hoover year [...] with 70 million RM.”<sup>459</sup>

Since the reparation tax on the Reichsbahn of 660 million RM annually to be paid to the BIS as provided for in the Young Plan was replaced in the announcement of the London Protocol of 11 August 1931 with retroactive effect from 1 July 1931 for the duration of the Hoover year by a contribution to the reparation payments to the Reich in the amount of 70 million RM, the relief from public charges amounted to 590 million RM. The loads on the annual budget under the reparations regimes from the Dawes Plan through the Young Plan to the Hoover Moratorium are shown in Figure 3.7. Since the Hoover Plan is aimed at combating a balance of payments crisis, the measure should be classified as endogenous (N), deficit reduction (DR). The relief could equally be categorized as exogenous (x), external (ET), since the measure does not emanate from a domestic policy initiative, but from an international understanding.

### **Emergency decree of 8 December 1931**

The *Vierte Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen und zum Schutze des inneren Friedens* was published on 8 December 1931.<sup>460</sup> The draft of the decree had been discussed earlier at the ministerial meeting on 4 December, whereby the Reich Minister of Finance referred to the deficit to be covered in the Reich budget and the subsidy requirements of the Länder for the winter months.<sup>461</sup> In an undated overview of the 1932 Reich budget sent to the Reichsrat, the intention of this emergency decree was described in the following way: “This decree, according to the government’s justification, in addition to securing the budget, pursued the goal of relieving the overall production, turnover and standard of living of the German people in every possible way. It therefore brought comprehensive and incisive regulations to reduce prices

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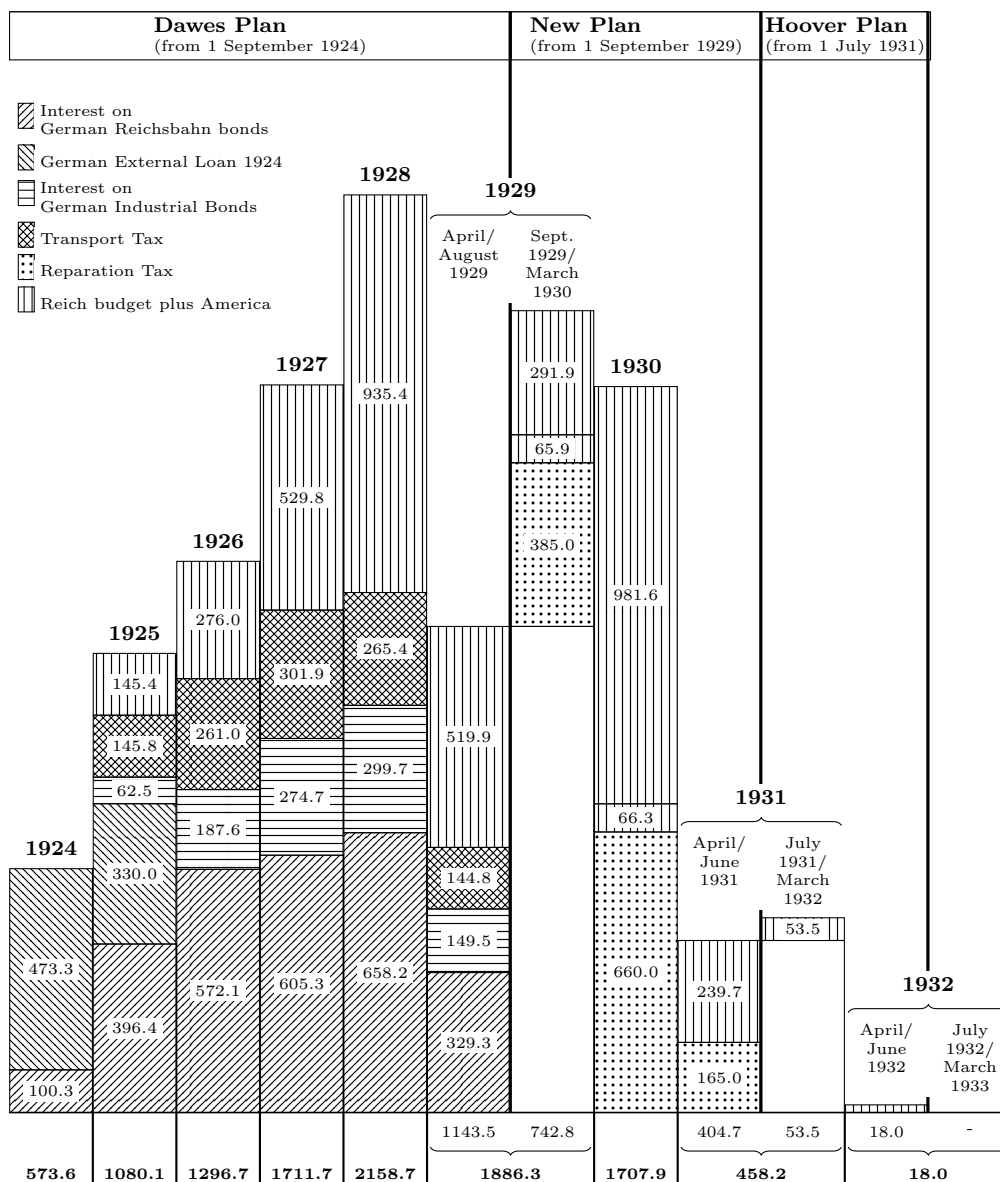
<sup>459</sup>BA R5/2510, Grundsätze für die Durchführung des Hooverplans durch die Deutsche Reichsbahn-Gesellschaft.

<sup>460</sup>RGBL. 1931 I, p. 699.

<sup>461</sup>BA R 43-I/1453, Blatt 363.



Figure 3.7: The reparation payments for the fiscal years 1924/1932  
 (1 April of one year to 31 March of the next year)  
 (in millions of Reichsmarks, final up to and including March 1932)



Source: BA R2/9863, Blatt 121, Reichsfinanzministerium, Handakten Amtsrat Matthaus: "Finanzieller Überblick über den Reichshaushaltsplan 1933".

Notes: In the primary source, the bar chart is supplemented by a table of some additional agreements under the Young and Hoover plan in the period from fiscal years 1929 to 1932. Between September 1929 and March 1930, these agreements resulted in a total encumbrance of 108.0 million RM, in the fiscals 1930 to 1932, respectively to 171.1 million, 102.5 million, and 127.0 million RM. The reproduction of these additions and explanatory footnotes of the original source is refrained from due to the low quantitative impact and their tax or tax-like implications.

of all kinds. It also brought incisive measures in the field of general interest rate reduction.”<sup>462</sup> In terms of taxation, this meant a reduction in transport tax, an increase in turnover tax, the introduction of a Reich flight tax and the abolition of the mineral water tax.

In the First Part of the decree, entitled “Price and Interest Rate Reduction”, Chapter II “Protection against Overpricing” created the possibility of a partial or complete waiver of the transport tax, provided that the carrier in question had reduced the transport tariffs.<sup>463</sup> The intention to reduce transport fares in this way had already been decided in the ministerial meeting of 7 December: “The transport tax is to be abolished if the fares of the tramway companies are reduced accordingly.”<sup>464</sup> The press release that followed the decree also described the regulation as an encouragement to reduce fares: “A special incentive is given to reduce the prices of tickets for trams, small railways and private railways by the fact that the transport tax is to be waived in whole or in part in the case of a reduction in fares.”<sup>465</sup> The regulation and its financial implications are reported in the 1932 Reich Budget as follows: “The Decree of the Reich President of 8 December 1931 First Part Chap. II § 4 (Reichsgesetzbl. I S. 702) provides that private railways, small railways and tramways may, at the request of the Reich Commissioner for Price Control, be exempted in whole or in part from the transport tax under the Transport Tax Act of 29 June 1926 (Reichsgesetzbl. I p. 357), if they reduce their transport tariff to an appropriate extent, taking into account the measures taken in this decree. The reduction in tax revenue caused by this and by the reduction in traffic can be estimated at about 30 million RM”.<sup>466</sup> Since the tax abatement targets the price level and in particular the operator prices in passenger transport, the measure is classified as an endogenous (N), supply stimulus (SS).

The mineral water tax is repealed in Part Four “Other economic measures” with Chapter III. The levy was not to be collected for the period from 1 January

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<sup>462</sup>BA R2/9863; Finanzieller Überblick über den Haushalt 1932, p. 10.

<sup>463</sup>RGBl. 1931 I, p. 702.

<sup>464</sup>AdRk Brüning I/II, Band III (1931), Dok. Nr. 592; BA R 43-I/1453, Blatt 398.

<sup>465</sup>BA R 43-I/2375, Blatt 759.

<sup>466</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1932, p. 27.

1932 to 31 December 1933.<sup>467</sup> The Reich Minister of Finance justified his proposal to suspend the mineral water tax in the ministerial meeting in such a way that the measure would “meet a demand of the political parties. The tax had so far yielded only 12 million.”<sup>468</sup> This tax relief was also publicly communicated as such: “A relief in the tax field, which has been emphatically demanded from various sides, will come about by the mineral water tax being temporarily suspended.”<sup>469</sup> Following the decision of the ministerial meeting, state secretary Pünder from the Reich Chancellery commented the following on the forthcoming emergency decree: “Conversely, the tendency of the whole economic programme is to revive the economy by easing the price side. This aspect obviously plays a major role in the mineral water tax. It can hardly be denied that the entire mineral water industry has come to a complete standstill due to last year’s high tax (in connection with the poor economic situation, of course). Numerous submissions show that if the tax were abolished, the mineral water industry would see a considerable price reduction exceeding the tax rate. In my opinion, such considerations are more important than the fiscal aspect of the initial tax loss of 12 million. If even a partial boost to the economy is achieved by the overall economic programme, such initial tax losses will certainly be more than offset.”<sup>470</sup> These remarks show that the measure is intended as a short-term support for the mineral water industry and thus has to be classified as supply stimulus (SS), endogenous (N).

With Part Seven of the decree, various measures “securing the budgets” were taken. The included changes concerned in particular the increase of the turnover tax and the introduction of the Reich Flight Tax (Reichsfluchtsteuer). With effect from 1 January 1932, Chapter I increased the turnover tax from 0.85 to 2 per cent, and in certain cases to 2.5 per cent, and introduced a compensatory tax on the “bringing into the country” of goods which were not dutiable.<sup>471</sup> When discussing the draft decree and the measures to cover the budget shortfall in the ministerial meeting, the Reich Minister of Finance reckoned, among other things, with “700 million in additional revenue from the turnover tax to be increased”. Of

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<sup>467</sup>RGBl. 1931 I, p. 715.

<sup>468</sup>AdRk Brüning I/II, Band III (1931), Dok. Nr. 586.

<sup>469</sup>BA R 43-I/2375, Blatt 764.

<sup>470</sup>BA R 43-I/2413, Blatt 33.

<sup>471</sup>RGBl. 1931 I, p. 728.

a shortfall of 900 million RM in the upcoming 1932/33 financial year, the majority was thus to be covered by the increase in turnover tax, while the remainder was to be achieved through salary cuts and savings in material expenditure.<sup>472</sup> The measure is therefore to be classified as an endogenous (N), deficit reduction (DR).

The content of this part with measures to secure the budget included in Chapter III under the heading “Reich Flight Tax and Other Measures against Capital and Tax Flight” the introduction of a tax on emigration. This Reich Flight Tax (Reichsfluchtsteuer) was levied on all natural persons who had given up their residence or habitual abode in the German Reich between 1 April 1931 and initially 31 December 1932.<sup>473</sup> The initially provisional regulation, which would have expired at the end of the calendar year 1932, was subsequently extended annually and in some cases tightened considerably.<sup>474</sup> The press release on this part of the emergency decree states that a number of wealthy Germans emigrated in 1931, with “the high tax burden in Germany being decisive for this decision”. In order to counteract this, the regulations of the Reich Flight Tax were intended “to affect only those persons who are particularly wealthy and who, for reasons not justified by the national economy, transfer their residence abroad.” The tax was thus aimed at those who emigrated for the purpose of tax avoidance, but nevertheless stayed primarily in the domestic country.<sup>475</sup> The financial overview of the 1932 financial year contains a similar explanation of the measure taken: “The so-called Reich Flight Tax was also introduced, which burdens those persons who are particularly wealthy and who move their residence abroad for reasons that are not economically justified. For the end of the year, a revenue of 600,000 RM was expected.”<sup>476</sup> Even though the measure did not come into force until 10 December 1931, it applied retroactively to all emigrations since the beginning of the fiscal year, so that this figure can be regarded as a full-year estimate. Although the

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<sup>472</sup>BA R 43-I/1453, Blatt 363.

<sup>473</sup>RGBl. 1931 I, p. 731.

<sup>474</sup>While the original period of application of the Reich Flight Tax was intended to end 1932, it was extended on 23 December 1932 until the end of 1934 (RGBl. 1932 I, p. 572) and on 16 October 1934 until the end of 1937 (RGBl. 1934 I, p. 941). Subsequent one-year extensions took place on 19 December 1937 (RGBl. 1937 I, p. 1385) and, retroactively, on 1 February, 1939 (RGBl. 1939 I, p. 125).

<sup>475</sup>BA R 2/20383, Blatt 149.

<sup>476</sup>BA R2/9863; Finanzieller Überblick über den Haushalt 1932, p. 10.

measure itself addresses tax avoidance and would therefore be classified as ideological, it should be seen in the overall context of this chapter as deficit reduction (DR), endogenous (N).

### **Emergency decree of 19 March 1932**

On 19 March 1932, a *Verordnung des Reichspräsidenten über Biersteuersenkung, Realsteuersperre 1932 und sonstige steuerliche, wirtschafts- und zollpolitische Maßnahmen* was announced.<sup>477</sup> It included in particular changes to the beer tax and the motor vehicle tax.

The beer tax reduction in Part One, Chapter I, dealt with the Reich beer tax. There was a reduction of 3 RM in all tax rates. The provision came into force on 22 March 1932. Due to the previous decline in consumption and tax revenues, which had occurred as a result of earlier tax increases as well as the economic situation, growing unemployment, teetotalism efforts, and “especially as a result of the sports movement”, there was an urgent need for action, as stated in the explanatory memorandum to the bill. The financial situation of the Reich did not allow it to stand idly by and watch this downward trend. This was also unacceptable from an economic point of view in the light of increasing unemployment and could not be expected of an old industry such as the German brewing industry, especially since agriculture (hop and barley cultivation) as well as corresponding industries such as the machine industry (for brewing machines and bottle and barrel production) were also suffering. Therefore, a strong reduction of the beer tax was assumed to be indispensable. “The equal reduction of each scale rate is in line with the wishes of the entire brewing industry. It will be achieved by strengthening the tax advantages for the small and medium-sized brewing industry. (...) The reduction of the Reich beer tax by 3 RM would, in purely mathematical terms, mean a reduction in tax revenue of about 105 million RM, (...) on the basis of current beer sales.”<sup>478</sup> Since the tax cut is intended to boost the brewing industry and the related branches of agriculture and industrial machinery, I classify the measure as endogenous (N), demand management (DM).

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<sup>477</sup>RGBl. 1932 I, p. 135.

<sup>478</sup>BA R 43-I/2413, Blatt 176-178.

The Third Part of the decree amended the motor vehicle tax as of 1 April 1932.<sup>479</sup> The surcharge on motor vehicle tax was now reduced from 10 to 5 per cent. In the explanatory memorandum to the draft of this chapter of the decree, the demand for the abolition of the surcharge and the reduction of the motor vehicle tax on the part of the automobile industry is mentioned, since the number of deregistrations had increased considerably and this not only seasonally in winter, but in part permanently. In consequence there had been “a strong contraction of the entire motor traffic”. “This would again put a considerable strain on the sales opportunities of the automobile industry, as further pressure would be exerted on the used car market by the heaped supply of these used cars and motorbikes.” On the other hand, those responsible for road construction, the municipalities that maintain the roads, would rely mainly on the surcharge for road construction and maintenance in the 1932 financial year. “As road maintenance is an important factor in stimulating the labour market, it must also be aimed, from general economic considerations, to make available to those liable for maintenance in the 1932 financial year a tax revenue not much less than in the current financial year.” On the basis of a 10 per cent reduction in wages, those liable for road construction would already be relieved to the extent that they would lose revenue through the reduction in the surcharge. “This would be matched by the proposed reduction in the surcharge from 10 to 5 per cent, or from 18 to 9 million.”<sup>480</sup> The financial volume of relief through the reduction of the surcharge on motor vehicle tax thus corresponds to 9 million RM annually. As the reduction of the surcharge is intended to support and stimulate the automobile industry as well as to boost demand for cars and avoid further deregistrations, I classify it as endogenous (N), demand management (DM).

### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *deficit reduction* (DR) classification.

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<sup>479</sup>RGBL. 1932 I, p. 139.

<sup>480</sup>BA R 43-I/2413, Blatt 189-190.

## 1932/33 Budget: 15 June 1932

*Reich Minister of Finance:* Johann Ludwig Graf Schwerin von Krosigk;  
*Chancellor of the German Reich:* Franz von Papen

### Context

The speed of the economic downturn slowed down since early 1931. While in the first quarter of 1931 GDP had still shrunk by 16.5 compared to the previous year, in the first quarter of 1932 it was 9.7 per cent.<sup>481</sup> At that time, the year-on-year growth rate of private investment had already had its strongest contraction in the fourth quarter of 1931 at 44.3 per cent, while this was still to come for private consumption in the second quarter of 1932 at 9.3 per cent.<sup>482</sup> For the first time, the unemployment rate exceeded 30 per cent in the 1st quarter of 1932. While in the previous year the budget merely balanced, a surplus of 0.3 per cent of GDP could now be achieved during the fiscal year 1931/32.<sup>483</sup> This achievement was the result of the tightening of the tax screw, which was reflected in a tax-to-GDP ratio of 13.2 per cent in the first quarter of 1932. This level of taxation was not reached again until the third quarter of 1936, a time when the fiscal course was set for rearmament. In order to fight capital outflow during the banking crisis of 1931, the Reichsbank almost tripled its Bank rate from the beginning of the year to 15 per cent on 1 August 1931. This all-time height was steadily decreased from 12 August 1931 and was 7 per cent at the turn of the year 1931/1932 before it was finally cut to 5 per cent on 5 May 1932. At the same time, since the third quarter of 1931, the money supply swiftly grew again and reached a preliminary peak with a rate of 10.8 per cent in the 1st quarter of 1932, which was not to be reached again until the spring of 1938. Meanwhile, prices fell ever more sharply until the spring of 1932. With the first quarter, this development came to an end and deflation held around a level of just under 12 per cent in mid-1932.<sup>484</sup>

The outflow of capital, which had been swelling since the end of the 1920s and was intensified by the stock market crash on Wall Street on 29 October 1929 as

<sup>481</sup>Based on Ritschl (2002b), Series C.2.3.

<sup>482</sup>Based on Ritschl (2002b), Series C.2.6 and C.2.1.

<sup>483</sup>Based on Ritschl (2002b), Series C.2.4.

<sup>484</sup>Based on Ritschl (2002b), Series C.2.11 and C.2.5.

well as the electoral successes of the National Socialists in 1930, led to a banking crisis in Germany in the summer of 1931. US President Herbert Hoover countered this crisis on 20 June 1931 with a one-year moratorium on all inter-allied war debts and thus also on the reparations of the German Reich. Encouraged by this, the Brüning government sought a revision of the war reparations, which were to be negotiated at the Lausanne Conference in the summer of 1932. At the time of the conference, after a cabinet reshuffle in October 1931, Brüning himself had lost the confidence of Reich President Paul von Hindenburg at the end of May 1932 and had been replaced in his position as Reich Chancellor by Franz von Papen. Hermann Dietrich was succeeded in the Reich Ministry of Finance by Graf Schwerin von Krosigk in the new cabinet.

### **Overall budget objectives**

Against the background of the impending negotiations on the reparations issue at the Lausanne Conference, the Brüning II cabinet had decided with regard to the 1932/33 Reich budget to issue only a temporary regulation for the months of April to June 1932 by means of an emergency decree.<sup>485</sup> This was published on 29 March 1932.<sup>486</sup> By the time the Brüning administration was replaced on 1 June 1932 by the Papen cabinet, the government had completed the preliminary work on the budget and accompanying measures.

The new Reich Finance Minister, Graf Schwerin von Krosigk, drew on those in the first months of the new government. This concerned in particular the emergency decree of 14 June 1932 with considerable spending cuts in social insurances as well as new tax burdens in order to “secure the cash situation of the Reich, the Länder and the municipalities for the time being and to save the social insurances from the actual threat of collapse”<sup>487</sup> which were considered a prerequisite to balance the budget. Also the budget for the year 1932/33, which was forwarded to the Reichsrat on 15 June<sup>488</sup> “in the interest of maintaining good relations with the Reichsrat”<sup>489</sup> and passed with only minor changes by the Reichsrat on 28

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<sup>485</sup> AdRk Brüning I/II, Band III (1931), Dok. Nr. 697, p. 9.

<sup>486</sup> RGBl. 1932 II, p. 97.

<sup>487</sup> Schulthess (1933, pp. 109-110).

<sup>488</sup> RR-Drucksachen 1932, Bd. 2, Nr. 58.

<sup>489</sup> AdRk von Papen, Dok. Nr. 17, p. 51.



June was inherited from the previous government. “With the budget, the work which the former Reich government had initiated and the present government had to carry out in order to maintain an orderly financial and cash management has essentially been brought to a conclusion.” the State Secretary in the Reich Ministry of Finance Zarden notified the Reichsrat and announced at the same time that the Reich government would “now turn to the organisational tasks it has set itself and to combating unemployment”.<sup>490</sup> Subject to a different parliamentary decision by the Reichstag and with the restoration of the original government bill, the budget was enacted by emergency decree on 30 June 1932.<sup>491</sup> The budget was moreover submitted to the sixth elected Reichstag, which convened a short time later, but did not deal with it.<sup>492</sup>

While the original budget was intended to be balanced in itself, practice in 1932 marked a departure from this aspiration, so that in the following budget this was summed up as follows: “For the rest, however, one has refrained from taking immediate measures to maintain a balanced budget in the course of the accounting year 1932. [...] Continuing along the path initiated in 1931 would not have led to any better result in the 1932 financial year in relation to its next objective, the maintenance of a balanced budget, and would have condemned all attempts to get economic life going again to hopelessness from the outset. It was therefore necessary to break with all deflationary measures and attempt to balance the public budgets from the economic policy side.”<sup>493</sup> This break with Brüning’s deflationary policy was marked by the Münster speech of Reich Chancellor Franz von Papen on 28 August 1932, in which he announced that “for parts of some particularly production-inhibiting taxes [...] which are due and will be paid in the period from Oct. 1st 1932 to Oct. 1st 1933, tax credit vouchers will be given.”<sup>494</sup> These vouchers would bear interest, could be used as collateral for loans and to settle Reich taxes in the accounting years 1934 to 1938. Likewise, such tax vouchers were to be issued as premiums for the hiring of new workers. With this outlined Papen programme, “an attempt was to be made to stimulate the

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<sup>490</sup>RR 1932, 19. Sitzung, p. 143.

<sup>491</sup>RGBl. 1932 II, p. 153.

<sup>492</sup>RT-Bd. 454, Drucks. Nr. 5.

<sup>493</sup>BA R 2/9863, Blatt 4.

<sup>494</sup>Schulthess (1933, p. 147).

economic process on a larger scale”<sup>495</sup> by the way of “relieving and thus fertilising it by about 2 billion RM”.<sup>496</sup>

### **Individual tax changes - April to May 1932**

On 12 May 1932, the *Verordnung des Reichspräsidenten über die Anpassung der Vermögensteuer, Erbschaftsteuer und Grunderwerbsteuer an die seit dem 1. Januar 1931 eingetretenen Wertrückgänge* lowered the wealth tax by 20 per cent as of 1 April 1932.<sup>497</sup> A new uniform valuation had taken place for the wealth tax on 1 January 1931. Since there had been a significant decline in assets since that date, the Reich Minister of Finance was authorised to take the declines in value into account for tax purposes and to make them effective on 1 April 1932. The design of the wealth tax was to be fairer and simpler and to take effect promptly. “Consequently, the draft provides for a flat rate discount from the wealth tax.” The target for 1931 had been set at 360 million RM. “For the financial year 1932, an amount of 280 million RM must be raised from the wealth tax. (...) If one takes into account that a certain shortfall must be put in reserve for equity measures, then if one wants to achieve 280 million RM from the wealth tax, a higher discount than 20 per cent cannot be justified.”<sup>498</sup> Accordingly, the estimated shortfall in revenue from the wealth tax amendment for 1932 is expected to be 80 million RM. The measure, which seeks to create a simple and fair compensation for the decline in value by means of a uniform reduction in wealth tax, is classified as ideological (IL), exogenous (X).

### **Emergency decree of 14 June 1932**

On 14 June 1932, a *Verordnung des Reichspräsidenten über Maßnahmen zur Erhaltung der Arbeitslosenhilfe und der Sozialversicherung sowie zur Erleichterung der Wohlfahrtslasten der Gemeinden* was issued.<sup>499</sup> After various tax increases and expenditure cuts in the Reich budget, according to the preface to Part Two of

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<sup>495</sup>Schulthess (1933, p. 147).

<sup>496</sup>Schulthess (1933, p. 148).

<sup>497</sup>RGBl. 1932 I, p. 192.

<sup>498</sup>BA R 43-I/2408, Blatt 42-43.

<sup>499</sup>RGBl. 1932 I, p. 273.

the draft, the municipalities were still confronted with high welfare expenditures and the social insurances with declining contributions as the crisis progressed. “The measures of the emergency decree, apart from securing the Reich budget, therefore serve primarily to ensure support for the unemployed and the unconditional maintenance of the social insurances as a whole.”<sup>500</sup> The request to “secure the cash situation of the Reich, Länder and municipalities for the time being and to save the social insurance system from the actual threat of collapse” was also publicly communicated by the Reich government on the day of announcement.<sup>501</sup> Accordingly, the measures to be discussed in the following, which are intended to reduce deficits in the budget and the social insurance, are to be classified as deficit reduction (DR), endogenous (N).

In Part Two “Relief of the Welfare Burdens of the Municipalities” of the decree, Chapter II introduced a levy for unemployment assistance (Abgabe zur Arbeitslosenhilfe), on which the law states: “To compensate for the expenditure on unemployment assistance, a levy for unemployment assistance shall be collected from the remuneration of wage and salary earners granted for the period from 1 July 1932 to 31 March 1933, for the benefit of the Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung in accordance with the provisions of §§ 2 to 11”.<sup>502</sup>

In the explanatory memorandum to the draft, the necessity of the measure is stated: “The ever-increasing requirements of unemployment assistance have endangered the security of public budgets over and over again in the last two years. This applies to the budgets of the Reich as well as to the municipalities.” The Reich budget had to be amended several times because the financial resources made available for unemployment assistance had not been sufficient. “In order to secure this year’s budgets, it is crucial to free them from this factor of uncertainty as far as possible. To this end, it is envisaged that all unemployment assistance will be regulated uniformly according to need and coverage in an annex to the budget of the Reich Ministry of Labour.”<sup>503</sup>

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<sup>500</sup>BA R 43-I/2387, Blatt 57.

<sup>501</sup>BA R 43-I/1456, Blatt 505.

<sup>502</sup>RGBl. 1932 I, p. 280 § 1 (1).

<sup>503</sup>BA R 43-I/2387, Blatt 34.

Since 400 million RM were still to be covered on the expenditure side, there was only one alternative. “Therefore, the only remaining option is to charge all those still in work a percentage of their income in favour of the unemployed. This levy will yield 400 million RM for the 9 months of the 1932 financial year.”<sup>504</sup> Scaled to a full-year estimate, the aforesaid projected revenue change corresponds to 533.3 million RM. Since this measure is intended to cover the deficits of unemployment insurance, I classify it as endogenous (N), deficit reduction (DR).

In Part Three, under the heading “Securing of budgets”, amendments were made in particular to the turnover tax, the salt tax, the crisis tax and the industrial levy. Chapter I of this part regulated the turnover tax. The change to this consisted of the abolition of the exemption limit for small businesses with a turnover of less than 5,000 RM, which had only been introduced on 1 December 1930, as of 1 July 1932.<sup>505</sup> According to the explanatory memorandum of the draft, the loss caused by the exemption limit had amounted to about 100 million RM at last and had therefore been even higher, because many taxpayers had tried to push their turnover below the tax exemption limit, as false figures could have been difficult to verify. “In this way, the tax authorities lose approximately 120 - 150 million RM per year.”<sup>506</sup> In the Reich budget for 1932, the amount expected from the abolition of the turnover tax exemption limit is specified: “The abolition of the exemption limit can be estimated at an increase in turnover tax of about 130 million RM.”<sup>507</sup> This is the figure used in the data set.

With regard to the Reich budget, the preface to this part states what the Reich government had already done: “It has mitigated the danger inherent in the turnover tax that the previous estimate of 1,820 million RM might not be reached by removing again the exemption limit of 5,000 RM introduced by the emergency decree of 1 December 1930.”<sup>508</sup> Thus, these remarks are in accordance with the overall objective of the decree, categorized as deficit reduction (DR), endogenous (N).

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<sup>504</sup>BA R 43-I/2387, Blatt 37.

<sup>505</sup>RGBL. 1932 I, p. 282.

<sup>506</sup>BA R 43-I/1456, Blatt 379.

<sup>507</sup>BA R2/9863, p. 32; Finanzieller Überblick über den Haushalt 1932.

<sup>508</sup>BA R 43-I/2387, Blatt 56.

In the succeeding Chapter II, the salt tax is reintroduced at the rate of 12 RM per quintal of salt.<sup>509</sup> The explanatory notes to the emergency decree state: “The salt tax repealed by the *Steuermilderungsgesetz* of 31 March 1926 is reintroduced with effect from 16 July 1932. It amounts to 12 Rpf. per kilo. Its revenue is estimated at about 70 million RM per year.”<sup>510</sup>

Since there was still no cover for the new expenditures worth 125 million RM for agricultural settlements, for the exemption of underground workers from unemployment insurance, for the miners’ pension insurance and the voluntary labour service, the Reich government “felt compelled to reintroduce the salt tax, which had already existed in the past, in the same amount”.<sup>511</sup> Since the introduction of the salt tax was in the context of new expenditures, the measure could be classified as spending-driven. As part of the emergency decree and especially under the motive of securing the budget, it is classified as deficit reduction (DR), endogenous (N).

Chapter III abolished the crisis wage tax as of 1 July 1932 and regulated the continued levying of the crisis tax on assessed persons,<sup>512</sup> both of which had only been introduced by the emergency decree of 5 June 1931. The abolition of the crisis wage tax with the simultaneous introduction of the levy for unemployment assistance (*Abgabe zur Arbeitslosenhilfe*), which was discussed with Part Two Chapter II of this decree, meant an additional burden for employees compared to the previous regulations of the crisis tax. “On the other hand, for reasons of simplification, the crisis wage tax is abolished with effect from 1 July 1932, so that the burden on the employee of the levy on unemployment assistance is reduced by the amount of the crisis wage tax previously payable.”<sup>513</sup>

The crisis wage tax was originally to be levied for 9 months in each of the financial years 1931 and 1932, but its revenue was greatly overestimated: “For the period of levying falling within the financial year 1931, the crisis wage tax has been estimated at 225 million RM. The actual revenue of the crisis wage tax in the financial year 1931 amounts to 126.3 million RM.” The monthly revenue

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<sup>509</sup>RGBl. 1932 I, p. 282.

<sup>510</sup>BA R 43-I/2387, Blatt 50.

<sup>511</sup>BA R 43-I/2387, Blatt 56.

<sup>512</sup>RGBl. 1932 I, p. 283.

<sup>513</sup>BA R 43-I/2387, Blatt 47.

from the crisis tax on wages was estimated at about 13 million RM, so that its abolition is equivalent to an annual relief of 156 million RM.<sup>514</sup>

The crisis tax on assessed persons was continued with an additional instalment of 50 per cent in January 1933. This tax was incorporated into the income tax in 1933 and was accordingly budgeted under it.<sup>515</sup> The justification for this additional rate was as follows: “Since only wage earners will be affected by the levy for unemployment assistance, a compensation is to be made by levying a second such instalment in January 1933 in addition to the one crisis tax assessment instalment previously provided for in October 1932. As is well known, apart from wage earners over 160000 marks, all other income earners are subject to the crisis tax on assessed persons, irrespective of the amount of their income (...). The revenue from this second instalment is assumed to be 45 million RM.”<sup>516</sup> The amount of this instalment is also assumed to be the same in the Reich budget: “Furthermore, the crisis tax of the assessed is increased by the decree of the President of the Reich of 14 June 1932 by a further half-yearly amount, the revenue from which is estimated at about 45 million RM.”<sup>517</sup> Since this additional instalment is to cover shortfalls in revenue from the crisis tax, I classify the measure as endogenous (N), deficit reduction (DR).

Chapter IV reduced the industrial levy to 100 million RM retroactively to 1 April 1932 for the duration of the 1932 fiscal year.<sup>518</sup> The earlier *Industriebankgesetz* of 31 March 1931<sup>519</sup> already increased the exemption limit for entrepreneurs liable for the levy from 20,000 to 500,000 RM. Given the economic conditions at the time, it was assumed that without a significant increase in the apportionment formula and despite the increase in the exemption limit, the originally targeted revenue of 200 million RM would be achieved. As a result of the decline in assets, however, an economically unbearable apportionment formula would now be necessary. “Consequently, while maintaining the exemption limit of 500,000 RM, the amount of the levy for 1932 is reduced to half”.<sup>520</sup> Compared to the 1931

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<sup>514</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1932, pp. 22-23.

<sup>515</sup>BA R2/9863, p. 30; Finanzieller Überblick über den Reichshaushalt 1933.

<sup>516</sup>BA R 43-I/2387, Blatt 51.

<sup>517</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1932, p. 23.

<sup>518</sup>RGBl. 1932 I, p. 283.

<sup>519</sup>RGBl. 1931 I, p. 124.

<sup>520</sup>BA R 43-I/2387, Blatt 52-53.

financial year, the levy of 230 million RM is reduced by 130 million RM to 100 million RM at the beginning of the 1932 financial year on 1 April 1932. The proceeds are divided between the Reich budget, which is allocated 40 million RM, and the *Bank für deutsche Industrie-Obligationen*, which receives 60 million RM. The *Bank für deutsche Industrie-Obligationen*, was to use 45 million RM of this for the debt relief of agriculture in the Eastern territories and the remaining 15 million RM for lending to small and medium-sized commercial enterprises.

The *Gesetz über die Höhe der Aufbringungsumlagen* of 30 May 1933 maintained the level of the levy for the financial years 1933 to 1936.<sup>521</sup> The revenue of 100 million RM was now to flow in full to the *Bank für deutsche Industrie-Obligationen* and, as in the previous year, was to be used for debt relief for agriculture in the eastern territories, 80 million RM, and for lending to small and medium-sized enterprises, 20 million RM. If the proceeds fell short of the budgeted 100 million, the Reich would make up the difference. If it were exceeded, the additional revenue would remain with the Reich. Contrary to the original intention of the repeal, the *Gesetz über die Weitererhebung der Aufbringungsumlage*, dated 17 June 1936,<sup>522</sup> extended the levying to 1937 and the subsequent fiscal years and maintained the level of the charge. While between 1933 and 1936 only the revenue exceeding 100 million RM fell to the Reich, the *Verordnung zum Gesetz über die Weitererhebung der Aufbringungsumlage* of 3 July 1937<sup>523</sup> raised it in full for the sake of the Reich budget. Figure 3.5 gives an overview of the gradual reduction of the industrial levy and the use of the amounts raised.

### Lausanne Conference 1932 of June and July 1932

As the “Hoover holiday year was not in itself sufficient to overcome the danger of collapse” and “a decisive turn in the world crisis was not realised”<sup>524</sup> the German Government invoked article 119 of the Young Plan on 19 November 1931 to call the BIS for the convocation of the Special Advisory Committee.<sup>525</sup> The report, issued on 23 December 1931 and referred to as Beneduce-report after the chairman of the

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<sup>521</sup>RGBl. 1933 I, p. 315.

<sup>522</sup>RGBl. 1936 I, p. 511.

<sup>523</sup>RGBl. 1937 I, p. 765.

<sup>524</sup>Great Britain. Foreign Office (1932a), Annex I, p. 19.

<sup>525</sup>Great Britain. Foreign Office (1932a), Annex I; BA R 43-I/331, Blatt 144-147.

committee, concluded that Germany “will not be able in the year beginning in July next to transfer the conditional part of the annuity.”<sup>526</sup> As the reparation creditors were in turn indebted to the US the report appealed, that “the adjustment of all inter-governmental debts (reparations and other war debts) to the existing troubled situation of the world - and this adjustment should take place without delay if new disasters are to be avoided - is the only lasting step capable of re-establishing confidence which is the very condition of economic stability and real peace.”<sup>527</sup> In February 1932, the national governments of Germany, Belgium, France, the United Kingdom, Italy and Japan agreed to convene in Lausanne in June to “to agree to a lasting settlement of the questions raised in the Report of the Basle Experts and on the measures necessary to solve the other economic and financial difficulties which are responsible for, and may prolong, the present world crisis.”<sup>528</sup>

The Lausanne Conference, which gathered on 16 June 1932, ended on 9 July with the redemption of all reparation obligations through a final payment. To this end, the German government was to hand over redeemable bonds worth 3 billion gold marks to the BIS. The BIS as trustee was then to sell these after three years on the open market for a price not less than 90 percent of the nominal value or, if a sale was not possible within 15 years, to destroy them. The bonds were to bear interest at 5 per cent and their sinking fund at 1 per cent. The lump-sum token payment was to replace all German obligations under the Young Plan reparations regime, which had been concluded in The Hague on 20 January 1930 and amended by the Hoover Plan in London on 11 August 1931 and in Berlin on 6 June 1932. Furthermore, the debt certificates of the German government and the certificates of the German Reichsbahn based on these agreements were to be returned to their respective issuers along with the coupon.<sup>529</sup> The ratification of the agreement reached at Lausanne was made contingent by the reparation creditors on a settlement of their own war debts. In the event that no understanding could be reached with the US, the legal position between Germany and their creditors

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<sup>526</sup>Great Britain. Foreign Office (1932a), p. 16.

<sup>527</sup>Great Britain. Foreign Office (1932a), p. 17; also in Bank for International Settlements (1931b).

<sup>528</sup>BA R 43-I/336, Blatt 264.

<sup>529</sup>Great Britain. Foreign Office (1932c), pp. 6-10.



would be reverted back to the state of the Agreements adopted in The Hague on 20 January 1930, and another conference would be needed to deliberate.<sup>530</sup>

While Germany was, in continuation of the suspension of payments for the duration of the conference, already released from its reparation payments due on 15 July 1932, the next instalment of the reparation creditors indebted to the US would become payable on 15 December 1932. This left the war debtors, of which France and the UK were the largest, five months to obtain a revision of their war debts in the US. Shortly after the presidential elections, on 10 November 1932<sup>531</sup> and again on 1 December,<sup>532</sup> both asked for negotiations on a final settlement and, until then, for a suspension of the pending instalments. The request of France,<sup>533</sup> the United Kingdom<sup>534</sup> and some smaller debtors was met with rejection. While, besides Italy, Czechoslovakia, Finland, Greece, Latvia, Lithuania, Romania, and Yugoslavia, the UK made its payment due on 15 December 1932 “as a capital payment, of which account should be taken in any final settlement”,<sup>535</sup> France already defaulted, as Belgium, Estonia, Poland and Hungary, on the pending payment as their *Chambre des députés* rejected its authorisation.<sup>536</sup> While the UK, Italy, Czechoslovakia, Greece, Latvia, Lithuania, and Yugoslavia finally defaulted for the first time on their war debts by notifying the US of the deferral of the instalment due on 15 July 1934, it was already the second time for France, Belgium, and Poland.<sup>537</sup> The refusal of the US to negotiate a final settlement of inter-allied war debts and the resulting non-ratification of the Lausanne agreements did not resume German reparations payments. Moreover, soon after the Nazis seized power, Germany declared a unilateral debt default in May 1933.

Unlike previous changes to the reparations regime, the implications of the Lausanne Conference have no direct impact on the budget and impeding changes in charges. The German budget for 1932, which no longer included any provision for reparations, already met with international criticism. The transitory arrange-

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<sup>530</sup>Great Britain. Foreign Office (1932d)

<sup>531</sup>FRUS 1932 vol. I, Document 510, 527.

<sup>532</sup>FRUS 1932 vol. I, Document 516, 529.

<sup>533</sup>FRUS 1932 vol. I, Document 515, 517.

<sup>534</sup>FRUS 1932 vol. I, Document 528, 532.

<sup>535</sup>Great Britain. Foreign Office (1932e), p. 3.

<sup>536</sup>FRUS 1932 vol. I, Document 524.

<sup>537</sup>Great Britain. Foreign Office (1934)

ments of the Hoover Plan had become a final informal settlement on reparations and war debts by the Conference of Lausanne even without US approval but through the successive default of war debtors. With the cancellation of reparations, a central motive of budgetary and tax policies vanished.

### **Emergency decree of 4 September 1932**

A *Verordnung des Reichspräsidenten zur Belebung der Wirtschaft* was issued on 4 September 1932, which in Chapter I of Part One, entitled “Relief for the Economy”, regulated the “Tax Rebate through Tax Vouchers”.<sup>538</sup>

Already at the meeting of the West German Farmers’ Associations on 28 August 1932, Reich Chancellor Papen had particularly emphasised the problem of unemployment in his Münster speech and presented the tax credit vouchers as one of the measures to combat it. “The government is therefore determined to make an attempt on a large scale to bring about the recruitment of new labour by stimulating the private sector. (...) A tremendous need has built up for maintenance and repair work. (...) The first step must be to provide the entire economy with the means to make up for this omission. (...) Tax credit vouchers are to be issued for portions of particularly production-inhibiting taxes (...) - incidentally without any burden on the budgets of the Länder and municipalities - (...) which fall due and are paid in the period from 1 October 1932 to 1 October 1933, on which all Reich taxes (...) with the exception of income tax, can be paid in the financial years 1934 to 1938. (...) This will involve an amount of about 1,500 million. (...) In addition, the Reich government wants to make available an amount of another 700 million marks in tax credit vouchers for those enterprises which prove that they employ more workers than before. For each new employee, an amount of 400 Marks is to be given in tax credits. If this amount is fully utilised, 1¾ million more workers can be employed. If this succeeds, it will have a very great forward-looking success.”<sup>539</sup>

The tax vouchers were issued for tax payments of certain taxes and as a bonus for additional employment. The corresponding tax vouchers entitled the holder from 1 April 1934 to 31 March 1939 to a tax rebate to the extent stated, whereby

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<sup>538</sup>RGBl. 1932 I, p. 425.

<sup>539</sup>Schulthess (1933, pp. 144-147); BA R 43-I/1457, Blatt 367-373.

one-fifth of the nominal amount plus premium could be redeemed each fiscal year for the payment of Reich taxes. Due to this construction, there were no tax losses in the Reich budget in 1932 and 1933, while the fiscal years 1934 to 1938 were each pre-encumbered with one-fifth of the nominal total volume of the tax vouchers plus agio. In order to improve the liquidity of such certificate holders, the tax remission bills were admitted to exchange trading and became eligible as collateral.

Taxpayers who had to pay turnover tax, trade tax, land tax or transport tax between 1 October 1932 and 30 September 1933 could have these credited at 40 per cent, in the case of transport tax even at 100 per cent, and received tax remission bills for this purpose. A limit had been set for the issue of the tax vouchers, which had been determined depending on the revenue estimate of the taxes concerned: 600 million RM for turnover tax, 240 million RM for trade tax, 512 million RM for property tax and 170 million RM for transport tax. In total, as Table 3.6 summarises, 1522 million RM worth of tax vouchers were earmarked for tax payments made.

Tax vouchers as a reward in the amount of 100 RM for the hiring of each additional employee compared to the average of the months June to August 1932 were given to employers quarterly in the period from 1 October 1932 to 31 September 1933. Bonuses in the amount of 700 million RM were budgeted for additional employment of workers. This amount was initially reduced on 28 January 1933 by 500 million RM, which was repurposed as collateral for direct job creation.<sup>540</sup> A further 100 million RM was made available for this purpose on 13 July 1933.<sup>541</sup> Altogether, these 600 million RM in tax vouchers served as collateral for the Gereke programme. The issuance of tax vouchers as employment premiums ended prematurely on 1 April 1933.

In total, there was a sum of 2,222 million RM in tax vouchers that could in principle be made available for redemption, although only 1,622 million RM can be treated as tax relief as only these were issued to the private sector. The staggered redemption resulted in a tax relief of 316.6 million RM as of 1 April 1934 through tax vouchers issued for taxes paid and of 20.8 million RM for those

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<sup>540</sup>RGBl. 1933 I, p. 31.

<sup>541</sup>RGBl. 1933 I, p. 464.

Table 3.6: Issuance of tax remission bills (in million RM)

Tax	Projected annual revenue <sup>1)</sup>			Tax	
	Reich	States and municipalities	Overall	Quota pct.	Amount
Turnover tax	1,500	-	1,500	40	600
Passenger transport tax	90	-	90	100	90
Goods transport tax	80	-	80	100	80
Land and building tax	-	1,280	1,280	40	512 <sup>2)</sup>
Trade tax	-	600	600	40	240
					1,522

<sup>1)</sup> According to the tax estimates mentioned in the official announcement.

<sup>2)</sup> If, as occasionally reported, the part of the land and building tax allocated to the tenant (leaseholder) is exempted from the ordinance, the amount is reduced accordingly.

*Source:* *Wochenbericht des Instituts für Konjunkturforschung*, Vol. 5 No. 24, “Die Steuergutscheine”, p. 98.

*Notes:* A similar overview, which presumably originated somewhat later in the Reich Ministry of Finance, can be found in BA R2/9863, Blatt 5. In this government source, the transport tax is not differentiated into passenger transport tax and goods transport tax. The overall numbers from both sources correspond to each other.

issued as premiums for additional employment. At the respective beginning of the following fiscal years, the reduction equalled the annual premium which was 12.2 million RM for taxes paid and 0.8 million RM for premiums for additional employment.<sup>542</sup> The reflows of the tax vouchers are shown in detail in Table 3.7.

Since the measures served to ensure that deferred investments were made by reducing production-inhibiting taxes and that firms could hire more workers, I classify them as endogenous (N), supply stimulus (SS).

<sup>542</sup>BA R2/9863, pp. 5-7; Finanzieller Überblick über den Reichshaushalt 1933.

Table 3.7: Return flow of tax remission bills (in million RM)

Fiscal year	Premium	for taxes paid			as bonuses for additional employment			as cover for job creation			Total sum
	pct.	Face value	Pre-mium	Sum	Face value	Pre-mium	Sum	Face value	Pre-mium	Sum	
1934/35	4	304.4	12.2	316.6	20.0	0.8	20.8	120.0	-	120.0	457.4
1935/36	8	304.4	24.4	328.8	20.0	1.6	21.6	120.0	-	120.0	470.4
1936/37	12	304.4	36.5	340.9	20.0	2.4	22.4	120.0	-	120.0	483.3
1937/38	16	304.4	48.7	353.1	20.0	3.2	23.2	120.0	-	120.0	496.3
1938/39	20	304.4	60.9	365.3	20.0	4.0	24.0	120.0	-	120.0	509.3
Total		1522.0	182.7	1704.7	100.0	12.0	112.0	600.0	-	120.0	2416.7

Source: BA R2/9863, Blatt 5, Reichsfinanzministerium, Handakten Amtsrat Matthäus: "Finanzieller Überblick über den Reichshaushaltsplan 1933".

### Individual tax changes - October 1932 to March 1933

With the *Verordnung über Mineralölsteuer* of 24 December 1932, the compensatory tax on mineral oil (mineral oil tax) was set at 3.80 RM per quintal as of 1 January 1933.<sup>543</sup> For the year 1932, a target of 13 million RM was budgeted from the mineral oil tax, of which only 6.4 million RM were raised. The estimate for the following financial year 1933 was after the raise 14 million RM, so that an increase of 7.6 million RM compared to 1932 was expected. "The higher estimate for the mineral oil tax is based on the assumption that the regular tax rate of 3.80 RM will be levied in the 1933 accounting year."<sup>544</sup> The revenue from the mineral oil tax was normally used for road construction and changes to this were mostly expenditure driven. Since the revenue in 1932 fell considerably short of the estimate and the increase presumably served to generate the originally intended revenue for road construction purposes, it seems reasonable to classify the tax change as deficit reduction (DR), endogenous (N).

### Pan-budget classification (robustness)

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *supply stimulus* (SS) classification.

<sup>543</sup>RGBl. 1932 I, p. 578; RAnz. 1932 No. 76 of 31 March 1934.

<sup>544</sup>R2/9863, pp. 29, 36: Finanzieller Überblick über den Reichshaushaltsplan 1933.

## 1933/34 Budget:

*Reich Minister of Finance:* Johann Ludwig Graf Schwerin von Krosigk (independent);

*Chancellor of the German Reich:* Adolf Hitler (NSDAP)

### Context

In early 1932, the unemployment rate exceeded 30 per cent for the first time, but stagnated at this level with a peak of 5.7 million unemployed in the third quarter of 1932. The decline in economic activity, which was around the 10 per cent mark in year-over-year growth rates during the first three quarters of 1932, came to a halt at the turn of the year 1932-33 and turned into small positive ones. Private consumption declined by about 19 per cent over three years between the first quarter of 1930 and the first quarter of 1933, while the decline in private investment was about 59 per cent over the same period.<sup>545</sup> Public consumption and investment declined by about 41 per cent between the calendar years 1929 and 1932<sup>546</sup> until the Papen and Schleicher administrations initiated cautious public work creation measures flanked by a Bank rate cut to 4 per cent on 22 September 1932 by the Reichsbank. The monetary base contracted by 13.4 per cent over six quarters since the end of 1931 while prices had fallen by 11.3 per cent over the same period.<sup>547</sup> On 30 January 1933, Adolf Hitler was appointed Reich Chancellor, replacing Kurt von Schleicher and Franz von Papen, who held the office between December 1932 and January 1933 and respectively between June and November 1932. The question of reparations was settled at the Conference of Lausanne in summer 1932 with a final payment by the German Reich to the Allies.

### Overall budget objectives

At the cabinet meeting of 22 February 1933, Reich Finance Minister Graf Schwerin von Krosigk stated that there was a deficit of 945 million RM with regard to the

<sup>545</sup>Ritschl (2002b), series C.2.1 and C.2.6.

<sup>546</sup>Ritschl (2002b), series A.12.12.

<sup>547</sup>Ritschl (2002b), series C.2.11 and C.2.5.

proposed 1933 budget. “He believed that he could assume without further ado that the Reich Cabinet did not consider it right to draw up a deficit budget, nor did it wish the deficit to be eliminated only formally, i.e., by arbitrarily increasing the estimate of revenues. The budget would therefore have to be balanced in a genuine way in terms of revenues and expenditures.”<sup>548</sup> The Reich Cabinet agreed that savings on the expenditure side should be made in consultation with the departments concerned and, if not completed in time, an emergency budget should be adopted for the first three months of the new fiscal year.<sup>549</sup> The emergency budget for the 2nd quarter of 1933 followed the previous fiscal year’s budget estimates one-quarter each, with exceptions for armament-related budgets, and was approved by the Cabinet on 29 March 1933.<sup>550</sup> Three months later, however, the Reich Finance Minister, when drawing up the final Reich budget, which was formally balanced at 5.9 billion RM, noted “that various uncertain items on the revenue or expenditure side were used for the balance, and that further individual expenditures that were necessary in themselves were not entered or were only entered to a reduced extent.”<sup>551</sup> The Budget 1933 was approved by the Cabinet on 27 June 1933.<sup>552</sup> With respect to the Budget Graf Schwerin von Krosigk commented: “As was to be expected, the financial situation for 1933 is very tight.”<sup>553</sup> The budget’s genesis shows that it follows budgetary orthodoxy and does not show an abrupt departure to expansionary fiscal management.

In the course of 1933 the new government revealed its preferences regarding economic and fiscal policy more clearly. Fritz Reinhardt, the State Secretary in the Reich Ministry of Finance, defined in two speeches in October 1933 that the task of fiscal and tax policy was “primarily aimed at reducing and ultimately eliminating unemployment.” In this sense, the first step was the restoration of the people’s confidence in the state, marked by Adolf Hitler’s assumption of power, whereby “the improvement of social, economic and financial matters is accelerated and consolidated by fiscal, taxation and labour market policy measures” whereby

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<sup>548</sup> AdRk Hitler, Band I,1 (1933/34), Dok. Nr. 26, p. 104.

<sup>549</sup> AdRk Hitler, Band I,1 (1933/34), Dok. Nr. 26, p. 106.

<sup>550</sup> AdRk Hitler, Band I,1 (1933/34), Dok. Nr. 77, p. 267; RGBl. 1933 II, p. 141.

<sup>551</sup> AdRk Hitler, Band I,1 (1933/34), Dok. Nr. 169, p. 598; see also Dok. Nr. 166.

<sup>552</sup> AdRk Hitler, Band I,1 (1933/34), Dok. Nr. 170; RGBl. 1933 II, p. 489.

<sup>553</sup> AdRk Hitler, Band I,1 (1933/34), Dok. Nr. 169.

“all these measures are designed to increase the demand for goods and services and thus inevitably for labour.”<sup>554</sup> On the same occasion, Reich Finance Minister Graf Schwerin von Krosigk, referring to the continuing deficits in the national budget, added that, unlike previous governments, loans were not being taken out “in order to cover a hole, but in order to create productive things with these loans, to create new things, in order in this way to avoid a deficit through the productive additional work and to create the basis on which, in the years to come, the additional revenues and the savings in expenditure will liquidate these loans by themselves.”<sup>555</sup>

### Individual tax changes

On 10 April 1933, the *Gesetz über Änderung des Kraftfahrzeugsteuergesetzes* was promulgated altering the motor vehicle tax. With this amendment, passenger cars and motorbikes powered by an internal combustion engine that were registered for circulation for the first time after 31 March 1933 were exempted from motor vehicle tax.<sup>556</sup> On 6 April 1933, the Reich Minister of Finance, Graf Schwerin von Krosigk, presented two drafts (A + B) with sample calculations, of which draft A, which provided for tax exemptions for all new cars regardless of size, was implemented as opposed to draft B, which contained a certain size limit. In the explanatory memorandum it is stated: “The promotion of motor transport serves to a particular extent the cyclical reduction of unemployment, since, as in hardly any other field, numerous other branches of employment find their employment through motor transport.” If one were to weigh up the pros and cons of a tax exemption for new cars, the aspect of “promoting production and industrial development” would make the measure appear financially justifiable. “The loss to be expected for 1933, if extended to all new cars, would amount to a total of 7.2 million RM (to which must be added about 300,000 RM for motorbikes).”<sup>557</sup> The 1933 budget also points out “that the exemption of new passenger cars introduced by the amendment to the Motor Vehicle Tax Act of 10 April 1933 (...) will have

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<sup>554</sup>Reinhardt (1933b, pp. 7-8); similar in Reinhardt (1933c, pp. 3-4) and Reinhardt (1934d, p.5-6).

<sup>555</sup>Reinhardt (1933c, p. 28)

<sup>556</sup>RGBl. 1933 I, pp. 192, 195.

<sup>557</sup>BA R 43-II/796, Blatt 40-41.



no significant influence on the revenue of the tax from the existing vehicle stock in the first year”.<sup>558</sup> Deviating from this, Fritz Reinhardt estimates the tax relief under the reform in 1935 to be 100 million RM annually compared to 1933.<sup>559</sup> Since the measure aims at increasing the stock of vehicles and thus at promoting the sales of new cars, it is classified as demand management (DM), endogenous (N).

Closely related to the amendment of the law on the tax exemption of new passenger cars was the *Gesetz über Ablösung der Kraftfahrzeugsteuer*, allowing to redeem the motor vehicle tax for passenger cars registered for the first time before 1 April 1933. By paying a one-off amount staggered according to the date of initial registration, the future motor vehicle tax debt could be redeemed for the duration of the use of the vehicle. The application for redemption of the motor vehicle tax had to be submitted by 1 October and the full amount had to be paid no later than a quarter of a year later. The law was passed on 31 May 1933 and came into force on 15 June 1933.<sup>560</sup> The bill justifies the one-time redemption of the motor vehicle tax with the fact that, due to the law on tax exemptions for passenger cars registered for the first time, the value of old cars would be reduced because of the existing tax liability. But if the old car was more difficult to sell, this would have an effect on a possible purchase of a new car. On the basis of the stock of old cars as of 1 July 1932 and a partial redemption of these, the revenue from the redemption of old cars from the motor vehicle tax is expected to amount to 113.75 million RM in 1933. However, this was offset by a shortfall in revenue of 50 million RM due to the loss of motor vehicle tax.<sup>561</sup> The transitory additional revenue is used for road construction: “The sum of the redemptions is more available in the current budget year for road maintenance purposes and thus for reducing unemployment in road construction”.<sup>562</sup> Reinhardt (1933a, p. 17) elaborates on the intended effect of the law: “The approximately 50 million Reichsmarks that the motor vehicle tax redemption will yield in total will be more available for road construction purposes in the current year. The consequence of this is an

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<sup>558</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1933, p. 25.

<sup>559</sup>RStBl. 1934, p. 1230.

<sup>560</sup>RGBL. 1933 I, p. 315.

<sup>561</sup>BA R 43-II/796, Blatt 70-71.

<sup>562</sup>BA R 2/18677, Blatt 30/9; R 43-II/787, Blatt 118.

increase in the level of employment and a reduction in unemployment in road construction, a reduction in the financial requirements of unemployment benefits and an improvement in the revenue from taxes, duties and social contributions.”<sup>563</sup> Because of the use of the additional revenue for the construction of roads, I have classified the measure as spending driven (SD), endogenous (N).

By the *Gesetz über Erhöhung der Rennwettsteuer* of 10 April 1933, the increase of the bookmaker’s tax was announced, which was applied from 1 May 1933.<sup>564</sup> The bookmakers’ tax is listed in the Reich budgets under the race-betting tax: “The revenue from bookmakers’ tax is estimated at 27 million RM in view of the increase in the tax rate from 10 to 16⅔ per cent.” Based on the difference to the previous year, there is an additional revenue of 12 million RM attributable to the tax change.<sup>565</sup> The intention of the tax increase becomes clear in the explanatory memorandum of the bill: “The general bad economic situation has also had a threatening effect on racing and horse breeding. The funds that could be made available to the racing clubs in recent years from the revenue from the racing betting tax were insufficient. In order to stop the further decline of horse breeding, we must strive to raise further funds for its purposes. It therefore appears necessary to align the tax rate for bets placed with the bookmaker with that for totalisator bets, i.e. to increase the bookmaker’s tax from 10 per cent to 16⅔ per cent of the bet.”<sup>566</sup> Since this measure raises funds to financially support horse breeding, I classify it as endogenous (N), spending driven (SD).

A *Verordnung über die Erhebung einer Ausgleichsabgabe auf Fette* imposing a compensatory levy on fats “to promote the use of domestic animal fats and domestic animal feed” appeared on 13 April 1933 and came into force on 1 May 1933 with application to margarine, oils and fats.<sup>567</sup> Previously, the *Zweite Verordnung des Reichspräsidenten zur Förderung der Verwendung inländischer tierischer Fette und inländischer Futtermittel* of 23 March 1933 had authorised the Reich Minister of Finance to decree such a fat tax and specified the purpose for which the additional revenue was to be used: “The funds accruing from the compensatory

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<sup>563</sup>Reinhardt (1933a, p. 17)

<sup>564</sup>RGBl. 1933 I, p. 191.

<sup>565</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1933, pp. 24-25.

<sup>566</sup>BA R 43-II/796, Blatt 32.

<sup>567</sup>RGBl. 1933 I, p. 206.

levy are to be used primarily to reduce the price of fat for the less well-off population.”<sup>568</sup> According to the 1933 budget, the introduction of the fat tax was supposed to generate an amount of 150 million RM.<sup>569</sup> Given the aim of funding food subsidies, the measure is classified as spending-driven (SD), endogenous (N).

On 1 June 1933, a *Gesetz zur Verminderung der Arbeitslosigkeit* was promulgated, which provided for tax amnesty or deductibility for donations for the purpose of job creation, tax exemptions for housemaids and the promotion of marriages through the granting of loans.<sup>570</sup> Section III regulates the “voluntary donation for the promotion of national work”.<sup>571</sup> The revenue was supposed to be used “to finance public works” during the financial year 1933/34. By the means of the law, tax defaulters could make a voluntary payment for which they received tax amnesty in return. In the case of salary recipients, on the other hand, the donation was already withheld from their salary as a percentage and thus acquired a tax character. In turn, the donation made could later be partially deducted from tax or credited against the tax liability. “The volume of labour donations will probably reach 150 million Reichsmark by the end of March and will be used in the course of the winter to counteract the customary seasonal increase in the number of unemployed”.<sup>572</sup> The funds raised formed a special fund administered by the *Deutsche Gesellschaft für öffentliche Arbeiten AG (Oeffa)* in trust for the Reich from which loans were granted for various public works such as the construction of airfields, theatres or motorways, the development of oil deposits, the construction of collective shelters for air-raid protection and ore drilling.<sup>573</sup> Reinhardt (1933b, pp. 39-40) explains why the measure can be classified as spending-driven (SD), endogenous (N): “The voluntary donation to promote national work is the only donation that is regulated by law and for which tax relief is granted. The greater will be the volume of voluntary donation for the promotion of national labour, the greater will be the sum that can be put into the struggle against the rebound of the unemployment figure in the coming months.”<sup>574</sup>

<sup>568</sup>RGBl. 1933 I, p. 144; Article 4(2)

<sup>569</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1933, pp. 4, 28-29.

<sup>570</sup>RGBl. 1933 I, pp. 323-329.

<sup>571</sup>RGBl. 1933 I, p. 324.

<sup>572</sup>BA R 43-II/787, Blatt 121.

<sup>573</sup>BA R2/18721.

<sup>574</sup>Reinhardt (1933b, pp. 39-40)

Section IV of the law aims at “transferring female workers to home economics” by granting tax reductions in the income tax for domestic helpers. More specifically, this means that an employer is granted a child allowance for up to three domestic helpers, provided they belong to the employer’s household.<sup>575</sup> The explanatory memorandum to the bill emphasises the “tax incentive to hire domestic helpers”, as a result of which the demand for domestic helpers would be increased and the labour market would be relieved by the hiring of female workers in home economics.<sup>576</sup> Fritz Reinhardt estimates the annual tax relief resulting from the tax reduction for domestic helpers at 40 million RM compared to 1933.<sup>577</sup> Because of the intended increase in demand for female labour in the home economy, the measure is classified as endogenous (N) demand management (DM).

Section V provides for the ‘promotion of marriages’. In order to be able to grant marriage loans, a tax on unmarried people, the *Ehestandshilfe* (“marriage assistance”), was introduced in the amount of 2 to 5 per cent for single wage and salary earners depending on their earnings and for assessed persons from their annual net income, while the single person’s surtax that had been levied until then was abolished. Reinhardt (1933c, p. 15) comments on the characteristics of the levy, which is income-dependent, as follows: “It is not a tax or levy (hilarity), but a help of those who have not married or do not want to marry towards those who are of marriageable age and want to marry. The law dates from 1 June, the marriage assistance has been levied since 1 July, and marriage loans have been granted since 1 August.”<sup>578</sup> The explanatory notes to the Law on the Promotion of Marriages provide information on the quantitative impacts of the measure: “The revenue from marriage assistance will amount to about 150 million Reichsmark annually. Of this, 15 million Reichsmark will remain in the Reich budget as a compensation for the previous single persons’ surtax, and 135 million Reichsmark will be available for the granting of marriage loans.” The difference between the additional revenues from the marriage assistance and the loss of revenue due to the abolition of the single persons’ surtax of 135 million Reichsmark represents the budget from which “about 27,500 marriage loans” can

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<sup>575</sup>RGBl. 1933 I, p. 326.

<sup>576</sup>BA R 43-II/787, Blatt 119.

<sup>577</sup>RStBl. 1934, pp. 1229-1236.

<sup>578</sup>Reinhardt (1933c, p. 15)

be granted, according to the estimate based on a exemplary calculation. The prerequisite for receiving a marriage loan is that the woman was employed and now commits to no longer being gainfully employed. Thus marriages “indirectly lead to the relief of the labour market by one more person, namely by the fact that the consumption also of furniture, household utensils, small flats and, as far as the men brought into employment are concerned, the consumption of goods for other daily needs increases.”<sup>579</sup> Since a transfer from single persons levied under the marriage assistance in order to provide marriage loans to married persons occurs and this transfer is intended to promote marriages and the exit of the newly married woman from the labour force, the measure is classified as ideological (IL), exogenous (X).

On 15 July 1933, the increase of the department stores’ and branch tax within the trade tax was passed as *Gesetz zur Regelung der Warenhaussteuer und der Filialsteuer für das Jahr 1933*, which was to come into effect retroactively from 1 April. For the department stores’ tax, regardless of whether it was levied as a state or municipal tax, an increase of up to twice the amount was to be permissible. For the branch tax, instead of 20 per cent, an increase of up to 40 per cent was permitted with reference to the Trade Tax Framework Law.<sup>580</sup> The Reich Minister of Finance, Krosigk, had originally intended the law to create a competitive balance between small and medium-sized enterprises and large companies by not reducing taxes for medium-sized retailers, but increasing those for large companies. Krosigk wrote in his explanatory memorandum that he had not received the approval of the Reich Cabinet for this, which is why the bill was only an interim solution for 1933 and would have to be renegotiated at a later date.<sup>581</sup> The revenue was to contribute to the repayment of bills of exchange for job creation measures: “The 350 million RM to be paid by the Reich itself are to be repaid in such a way that the additional revenue to be expected from the department stores’ tax (70 million RM annually) is used to redeem the labour bills.”<sup>582</sup> Given the intention of the law to balance competition between large

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<sup>579</sup>RAnz. No. 76 of 31 March 1934.

<sup>580</sup>RGBl. 1933 I, p. 492.

<sup>581</sup>BA R 43-II/369, Blatt 15-16.

<sup>582</sup>BA R2/18675, Blatt 6/5.

firms and small and medium-sized firms in the long run, I classify the measure as exogenous (X), long-run performance (LR).

On 21 September 1933, a *Zweites Gesetz zur Verminderung der Arbeitslosigkeit* was published. It contained several tax reductions or reliefs.<sup>583</sup> Section II provided for an annual reduction in agricultural land tax of 100 million RM from 1 October 1933 until 31 March 1935. Since the land tax was actually a state or municipal tax, the Reich provided the individual states with an amount to compensate for the loss of tax revenue, which was to be used by them “primarily to eliminate or reduce the land tax of the state and, insofar as a rest remained, to reduce the land tax of the municipalities”.<sup>584</sup> In retrospect, von Krosigk (1937, p. 473) cites predominantly “nutritional goals”<sup>585</sup> as the reason for the reduction, while Reinhardt (1933b, pp. 31-32) brings other aspects into play: “The reduction of agricultural taxes<sup>586</sup> is intended to strengthen the profitability and purchasing power of agriculture”.<sup>587</sup> I classify the measure as endogenous (N) and demand management (DM), since the tax cut is intended to promote investment activity in agriculture and increase profitability.

Section III reduced the turnover tax in agriculture from 2 to 1 per cent and increased “the rate of exemption for grain, flour and meal etc. from 0.85 to 1 per cent” with effect from 1 October 1933. “The loss of turnover tax resulting from this draft amounts to about 60 million Reichsmarks annually. The reduction is made without any condition.” states the proposed law.<sup>588</sup> Subsequently, Reinhardt (1934c, pp. 7-8.) estimates the tax effect of this reduction to be deviating from the original draft, with a shortfall in tax revenue of 100 million RM per year, somewhat higher than the original draft. And even though the reduction was not to be “tied to any condition”, there was an expectation: “Every farmer is expected to use the amount of the reduction either for repairs and additions to his farm equipment or for increasing his staff, and in this way to use it in the

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<sup>583</sup>RGBl. 1933 I, p. 651.

<sup>584</sup>RGBl. 1933 I, p. 651.

<sup>585</sup>von Krosigk (1937, p. 473)

<sup>586</sup>The reduction of agricultural taxes refers to two measures: the reduction of the agricultural land tax and the agricultural turnover tax. The legal basis is the aforementioned “Second Law to Reduce Unemployment” of 21 September 1933, RGBl. 1933 I, p. 651.

<sup>587</sup>Reinhardt (1933b, pp. 31-32)

<sup>588</sup>BA R 43-II/787, Blatt 124-125.

struggle to reduce unemployment.” Since Reinhardt also states the “purpose: to increase the purchasing power of agriculture” for the reduction of the agricultural turnover tax, just as for the reduction of the agricultural land tax, I classify the measure as endogenous (N), demand management (DM).

In Section V, the reduction of the land tax for older new house ownership was implemented. Residential buildings that were completed between 1924 and 1930 were to benefit from this regulation. Because “the reduction of the land tax for the designated new house ownership is intended to alleviate the economic disadvantage compared to the owners of houses that were built after 1930”.<sup>589</sup> The Reich made the funds for the reduction, comparable to the agricultural land tax in Section II, available to the states for a limited period: “The amount of 50 million Reichsmarks is made available for the period from 1 October 1933 to 31 March 1935. (...) The reduction is not tied to any condition, but the house owners are expected to spend the reduction amount immediately on repair and supplementary work.”<sup>590</sup> However, according to the 1934 and 1935 budgets, the Reich transfers 33.34 million RM each to the states for this tax reduction.<sup>591</sup> Since Reinhardt (1934c, p. 8) states as the purpose of the measure “partial compensation of excessive building prices in the years 1924 to 1930 and increasing the power of eligible building owners to carry out repairs and additions to their buildings”,<sup>592</sup> I classify the measure intended to stimulate investment as endogenous (N), demand management (DM).

On 22 September 1933, a *Gesetz über Änderung der Arbeitslosenhilfe* was promulgated with effect from 1 October 1933, exempting agriculture and forestry, inland and coastal fishing from unemployment insurance.<sup>593</sup> The exemption of some professions from the compulsory insurance led to a reduction in revenues for the *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung (RfAA)*, which was responsible for unemployment insurance: “The exemption will reduce the monthly contribution receipts by about 4 million RM.”<sup>594</sup> Extrapolated to the

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<sup>589</sup>Reinhardt (1933b, pp. 31-32)

<sup>590</sup>BA R2/18677, Blatt 30/9.

<sup>591</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1934, p. 28; 1935, p. 26.

<sup>592</sup>Reinhardt (1934c, p. 8)

<sup>593</sup>RGBl. 1933 I, p. 656.

<sup>594</sup>BA R2/18517, Blatt 7/8.

financial year, this measure resulted in a shortfall of contributions of 48 million RM. Due to the relief of the employers by the abolition of contributions for these occupational groups, “it must be expected that the employers will largely keep their employees through this winter”.<sup>595</sup> Since the measure is about managing the demand for labour by giving agricultural and forestry enterprises leeway to employ their seasonal workers over the winter through the exemption from contributions, I classify it as endogenous (N), demand management (DM).

On 10 October 1933, the circular *Nr. 835. Ziviler Luftschutz* was issued by the Reich Minister of Finance, according to which tax relief was granted for expenses for civil air defence.<sup>596</sup> This decree is closely related to the circular of 27 January 1934, according to which tax concessions are also granted for expenses in favour of the civil medical service.<sup>597</sup> The circular concerning tax concessions for expenses for the purposes of civil air defence states: “Under the Treaty of Versailles, Germany is forbidden to keep military aircrafts. The effective defence against air raids, namely the defence by our own combat aircraft, is denied to us. This makes civil air defence all the more important, as it aims to protect the population against the dangers that could arise from possible air attacks by taking appropriate measures. Since civil air-raid protection works in the interest of national defence and in the interest of the entire population, it is necessary to promote the measures of civil air-raid protection as far as possible, in particular also by granting concessions in the field of income tax (corporation tax) to taxpayers who expend funds for civil air-raid protection.”<sup>598</sup> With regard to the second circular of 27 January 1934, Reinhardt (1934d, pp. 18-19) comments as follows: “Expenses incurred for the purposes of civilian medical service in industrial and factory enterprises may also be fully deducted from taxable income. (...) So you see, almost every entrepreneur has the possibility to make his income largely income tax-free. He only needs to spend corresponding sums in the struggle to reduce unemployment according to the present circulars and laws.”<sup>599</sup> Reinhardt

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<sup>595</sup> AdRk Hitler, Band II,2 (1933/34), Dok. Nr. 212, p. 746.

<sup>596</sup> RStBl. 1933, p. 1073.

<sup>597</sup> RStBl. 1934, p. 128.

<sup>598</sup> RStBl. 1933, p. 1073.

<sup>599</sup> Reinhardt (1934d, pp. 18-19)



estimates a tax relief of 25 million RM annually resulting from both measures.<sup>600</sup> Since the second circular is a supplementary decree, I assign both decrees to the first implementation date of 1 January 1933. The tax exemptions were intended to stimulate investment in civil air-raid protection and medical services and were thus in line with the fight against unemployment. Consequently, I classify them as endogenous (N), demand management (DM).

On 15 November 1933, the *Gesetz über Außerkraftsetzung des Mineralwassersteuergesetzes und des Schaumweinsteuergesetzes* was promulgated to abrogate the mineral water tax and the sparkling wine tax,<sup>601</sup> before both were finally abolished on 4 February 1936.<sup>602</sup> The non-imposition of the mineral water tax was an extension of the law of 15 April 1930,<sup>603</sup> which had been repealed by the *Vierte Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen und zum Schutze des inneren Friedens* of 8 December 1931<sup>604</sup> for the period from 1 January 1932 to 31 December 1933. Hence, the tax was no longer relevant for the 1933/34 Reich budget. However, the situation was different with the tax on sparkling wine. According to the 1934 budget, the shortfall in revenue resulting from the abolition of the sparkling wine tax amounted to 3.9 million RM compared to the previous year.<sup>605</sup> A memorandum from the Hessian Reich Governor states: “The State Secretary of the Reich Ministry of Finance has decided to temporarily suspend the tax on sparkling wine, because otherwise the production of sparkling wine will soon come to a complete standstill. (...) The total revenue from the sparkling wine tax today amounts to hardly more than 3 million marks annually”.<sup>606</sup> The explanatory memorandum to the law cites the poor economic situation of sparkling wine producers with employment figures reduced by a third compared to 1927/28. This required help to prevent further redundancies. The abolition of the tax on sparkling wine would have the effect of lowering prices, increasing sales and increasing employment. Furthermore, the measure would result

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<sup>600</sup>RStBl. 1934, pp. 1232, 1235.

<sup>601</sup>RGBL. 1933 I, p. 975.

<sup>602</sup>RGBL. 1936 I, p. 55.

<sup>603</sup>RGBL. 1930 I, p. 139.

<sup>604</sup>RGBL. 1931 I, p. 715.

<sup>605</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1934, pp. 4, 26-27.

<sup>606</sup>BA R 43-II/797, Blatt 18-19.

in increased tax revenue from turnover and income tax.<sup>607</sup> I classify the measures as supply stimulus (SS) and thus as endogenous (N), since an individual industry is granted a short-term tax cut during a downturn to overcome the crisis.

On 24 March 1934, the *Gesetz zur Erhaltung und Hebung der Kaufkraft*, aiming to preserve and increase purchasing power, was promulgated. Section III regulates the levy in the purpose of the unemployment insurance.<sup>608</sup> The levy on wages was originally to be reduced in the period from 1 April 1934 to 31 March 1935. However, the term was changed to the effect that the former higher rates already applied again to wages earned after 31 December 1934.<sup>609</sup> Reichs Finance Minister von Krosigk (1934, p. 18.) describes the content and financial effects of the law one day after it was passed as follows: “In this, an extraordinarily remarkable reduction has been made for unemployment assistance, which is paid by all workers, employees and civil servants, amounting to 1.5-6.5% of the salaries. (...) This law means a cut of 300 million marks in unemployment assistance from the 530 million it originally amounted to. The 300 million marks have the effect of substantially strengthening and reviving purchasing power”.<sup>610</sup> Reinhardt describes a similar intended effect when he sees the law as “increasing the purchasing power of the workforce and thus stimulating consumption and the consumer goods industry” and quantifies the tax relief in the same amount as Krosigk: “In accordance with this law, the levy for unemployment assistance has been reduced by 300 million RM annually. The reduction is effective from 1 April 1934.”<sup>611</sup> I classify the measure intended to bring about an improvement in income for certain households and individuals as endogenous (N), demand management (DM).

### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *demand management* (DM) classification.

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<sup>607</sup>BA R 43-II/797, Blatt 29.

<sup>608</sup>RGBl. 1934 I, p. 237

<sup>609</sup>RGBl. 1934 I, p. 941; Section VIII § 45 (1).

<sup>610</sup>von Krosigk (1934, p. 18.)

<sup>611</sup>RStBl. 1934, pp. 1232-1233.

## 1934/35 Budget:

*Reich Minister of Finance:* Johann Ludwig Graf Schwerin von Krosigk (independent);

*Chancellor of the German Reich:* Adolf Hitler (NSDAP)

### Context

On 1 June, the Reich government had initiated expansive measures to combat unemployment, known as the Reinhardt Program, to the tune of one billion RM.<sup>612</sup> Under the impression of the impending winter this amount was increased again by 500 million RM on 21 September 1933.<sup>613</sup> The increase in economic activity picked up in the course of 1933 and GDP growth became double-digit from the third quarter of 1933.<sup>614</sup> The number of unemployed fell by 2.2 million within a year from the beginning of 1933, cutting the unemployment rate below the 20 per cent mark in the first quarter of 1934. In the spring of 1934, the annual growth rate of private investment reached almost 71 per cent. Over the same period personal consumption experienced only a modest increase of 3.9 per cent.<sup>615</sup> At 1.3 per cent of GDP, the budget deficit in the fiscal 1933/34 already exceeded those of the years of the Weimar Republic.<sup>616</sup> The monetary base and prices show similar patterns with money supply growth of 1.6 per cent and inflation of 3.1 per cent over the fiscal 1933/34.<sup>617</sup>

### Overall budget objectives

On 16 February 1934, the Reich Minister of Finance reported to the Reich Chancellor on the budget and financial situation in 1933/34, calculating a deficit of 350 million RM for the past fiscal year at best. For the forthcoming fiscal year, he estimated this deficit to be 750 million RM. Outside the budget, it was also necessary to secure funding for road construction (around 500 million RM) and one-off

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<sup>612</sup>RGBl. 1933 I, p. 323.

<sup>613</sup>RGBl. 1933 I, p. 651.

<sup>614</sup>Ritschl (2002b), series C.2.3.

<sup>615</sup>Ritschl (2002b), series C.2.1 and C.2.6.

<sup>616</sup>Based on Ritschl (2002b), series C.2.3 and C.2.4.

<sup>617</sup>Ritschl (2002b), series C.2.11 and C.2.5.

defense expenditures (around 1.4 billion RM) through the money market and the Reichsbank.<sup>618</sup> On 17 March 1934, Graf Schwerin von Krosigk introduced the draft budget for 1934 to the Cabinet, which was adopted on 22 March 1934 after minor revisions.<sup>619</sup> The budget formally closed balanced at 6.46 billion RM.<sup>620</sup> From von Krosigk's point of view, this expected borrowing could only be justified by the fact that the economic revival would bring corresponding tax revenues to cover the debts incurred. "The recovery of the economy and the fight against unemployment are thus still the focus of fiscal policy", the Minister of Finance stated.<sup>621</sup> In this sense, he intended a continuation of the job creation measures, from which above all the production goods industries benefited the most. The Minister of Finance identified a need to catch up in the consumer goods industries and noted: "A particularly important factor for the internal market is the revival of the consumption power of the broad masses."<sup>622</sup> To achieve this, there would be no scope to increase gross wages, but the burden on income should be reduced to increase net wages. Taxes, social burdens and various more or less voluntary contributions for the *Arbeitsspende*, *Winterhilfe* or the *Arbeitsfront* should be reduced in order to raise purchasing power.<sup>623</sup> With regard to foreign trade, Graf Schwerin von Krosigk remarks: "It is not only the decline of the export industry that leaves millions of workers unemployed, but the question is even more difficult. Due to the unfortunate development of foreign exchange, we will soon no longer be in a position to procure the necessary raw materials from abroad which our industry here needs for the domestic revival, and as a result of this scarcity of foreign raw materials there may be a serious slump with regard to the revival at home."<sup>624</sup> For the autumn 1934, the Reich Minister of Finance intended a tax reform "with the aim of technical simplification, greater consideration of population policy principles and a substantial improvement in income tax rates".<sup>625</sup>

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<sup>618</sup> AdRk Hitler, Band I,2 (1933/34), Dok. Nr. 304, p. 1140.

<sup>619</sup> BA R 43-II/758, Blatt 131-142; AdRk Hitler, Band I,2 (1933/34), Dok. Nr. 321, p. 1203.

<sup>620</sup> RGBL. 1934 II, p. 121.

<sup>621</sup> AdRk Hitler, Band I,2 (1933/34), Dok. Nr. 304, p. 1140.

<sup>622</sup> AdRk Hitler, Band I,2 (1933/34), Dok. Nr. 304, p. 1141.

<sup>623</sup> AdRk Hitler, Band I,2 (1933/34), Dok. Nr. 304, p. 1141; von Krosigk (1934), pp. 18-19; similar in von Krosigk (1935).

<sup>624</sup> von Krosigk (1934), p. 20.

<sup>625</sup> AdRk Hitler, Band I,2 (1933/34), Dok. Nr. 304, p. 1142.

In the course of this tax reform of October 1934, Fritz Reinhardt, State Secretary in the Reich Ministry of Finance, laid out the general principles of National Socialist tax policy:

- I. Granting tax incentives that are likely to stimulate the coverage of existing needs and eventually lead to the following development:
  - a) increase in demand for goods and services,
  - b) reduction in unemployment as a result of increased demand for goods and services,
  - c) increase in sales, income and consumption in the German economy as a result of increased demand for goods and services and increased income of all creators,
  - d) reduction in the financial requirements of unemployment assistance as a result of reduction in unemployment and increase in the yield of tax sources as a result of increased sales, increased income and increased consumption;
- II. General reduction or elimination of taxes to the extent that it can be assumed that this will increase the demand for goods and services and, as a result, achieve the effects described above under Principle I b to d;
- III. Reconstruction of taxes according to population policy principles in such a way that the people with many children are relieved and the resulting shortfall is compensated: either.
  - a) by combining it with Principle V, or
  - b) by apportioning the tax to the unmarried and to those with few children, or
  - c) by other changes in the tax;
- IV. Restructuring of taxes for the purpose of highlighting the value of personality and personal responsibility in the economy;
- V. General reduction or elimination of taxes to the extent that, in accordance with the general development of the public budget, the tax requirement is reduced.<sup>626</sup>

### **Tax reform of October 1934**

The tax reform of 16 October 1934 comprises a complex of ten tax laws. Reich Chancellor Adolf Hitler rejected the term tax reform, under which the drafts had

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<sup>626</sup>Reinhardt (1934b, p. 1230); similarly in Reinhardt (1934c, pp. 3-5).

been introduced into the cabinet, as this could arouse too high a public expectation. Instead, he asked for a successive publication of the legislation and in communication, rather than a reform, it was referred to as “the new tax laws” or “changes in tax law”. The amendments included the *Einkommensteuergesetz*,<sup>627</sup> the *Körperschaftsteuergesetz*,<sup>628</sup> the *Reichsbewertungsgesetz*,<sup>629</sup> the *Bodenschätzungsgesetz*,<sup>630</sup> the *Vermögenssteuergesetz*,<sup>631</sup> the *Erbschaftsteuergesetz*,<sup>632</sup> the *Umsatzsteuergesetz*,<sup>633</sup> the *Kapitalverkehrsteuergesetz*,<sup>634</sup> the *Steueranpassungsgesetz*<sup>635</sup> and the *Bürgersteuergesetz*<sup>636</sup> and were gradually published in three issues of the *Reichsgesetzblatt* between 17 and 24 October 1934.<sup>637</sup> Reich Finance Minister von Krosigk described the general intentions of the drafts as follows: “In addition to a concise and clear wording of the individual laws, a simplification and relief of the administration, a stronger consideration of population-political points of view and, as far as possible, an economic stimulating influence had been striven for.”<sup>638</sup> This reform with a predominantly simplifying character of the tax law in connection with worldview aspects is classified as ideological (IL), exogenous (X). In order to prove the predominantly exogenous motivation of the reform, the individual laws are discussed on the basis of their particular motivation in the following.

The revision of the income tax by the *Einkommensteuergesetz*, with three essential changes in particular, played a central role in the reform.<sup>639</sup> The income tax scale was redesigned to make families more favourable, the exemption limits for agricultural income were reduced, and in the taxation of profits the concept of profit was redefined as well as the valuation regulations were changed. The new

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<sup>627</sup>RGBl. 1934 I, p. 1005.

<sup>628</sup>RGBl. 1934 I, p. 1031.

<sup>629</sup>RGBl. 1934 I, p. 1035.

<sup>630</sup>RGBl. 1934 I, p. 1050.

<sup>631</sup>RGBl. 1934 I, p. 1052.

<sup>632</sup>RGBl. 1934 I, p. 1056.

<sup>633</sup>RGBl. 1934 I, p. 942.

<sup>634</sup>RGBl. 1934 I, p. 1058.

<sup>635</sup>RGBl. 1934 I, p. 925.

<sup>636</sup>RGBl. 1934 I, p. 985.

<sup>637</sup>AdRk Hitler, Band II (1934/35), Dok. Nr. 23, p. 97.

<sup>638</sup>BA R 43-II/787, Blatt 327, reprinted in AdRk Hitler, Band II (1934/35), Dok. Nr. 23.

<sup>639</sup>RGBl. 1934 I, p. 1005.

income tax scale,<sup>640</sup> applied for the first time to the assessment of the calendar year 1934, incorporated the previous crisis tax, the surcharges for income of more than 8,000 RM, the *Ehestandshilfe* (“marriage assistance”) and the levy for unemployment assistance, which had previously only been paid by wage and salary earners.<sup>641</sup> The reform of the income tax was also intended to relieve wage and salary earners of up to 80 RM per month and to take “greater account of marital status”.<sup>642</sup> The reform of the income tax relieved families with several children, while childless married and single persons as well as one-child or two-child families exceeding certain income thresholds were taxed more, whereby the changes in the tariff were not to lead to reduced revenues for the Reich: “The redesign of the tariff must not lead to a reduction in tax revenue below the amount that would result if the tariff had not been redesigned.”<sup>643</sup> The only exception, according to State Secretary Reinhardt, is the “60 million RM shortfall in income tax revenue insofar as the levy for unemployment assistance has been built into the tariff of the new income tax with an amount that falls short of the revenue amount of the year 1934 by 60 million RM”.<sup>644</sup> This measure was motivated by an even taxation of wage and salary earners as well as assessed income taxpayers: “The burden which wage and salary earners have hitherto borne alone in the form of the levy for unemployment assistance has been considerably greater than the secondary taxes borne by assessed income taxpayers. The uniformisation of the burden on all income taxpayers inevitably leads to a shift of the burden in favour of wage and salary earners and to the disadvantage of assessed income taxpayers”.<sup>645</sup> Since the integration of unemployment assistance into the income tax serves the purpose of tax justice between assessed income taxpayers and wage taxpayers, it is classified as exogenous (X), ideological (IL).

Within the amendment of the income tax law, the exemption limits for agricultural income were also reduced from 12,000 RM to 8,000 RM and from 6,000 RM to 3,000 RM as of 1 January 1936: “From the outset, the preferential treatment in

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<sup>640</sup>RGBl. 1934 I, p. 1005.

<sup>641</sup>BA R 43-I/1470, Blatt 48-59.

<sup>642</sup>BA R 43-I/1470, Blatt 56.

<sup>643</sup>BA R 43-I/1470, Blatt 49.

<sup>644</sup>RStBl. 1934, pp. 1229-1236.

<sup>645</sup>BA R 43-I/1470, Blatt 48.

the previous scope was only intended for times of exceptional emergency. Today it is no longer possible to speak of such an emergency. However, the restriction of the benefit is to be postponed until 1936. The agricultural sector is expected to spend the full amount of the sums for which it will continue to receive preferential treatment in order to increase the productivity of Germany's agricultural enterprises."<sup>646</sup> Similarly, Reinhardt expresses the expectation towards agriculture: "By maintaining the previous limits up to and including 1935, agriculture should be given the opportunity to fully use the amounts it saves in taxes to increase the productivity of its farms".<sup>647</sup> The additional revenue resulting from the reduction of the exemption limits on agricultural income amounting to 23-25 million RM can first be realised in the calendar year 1936 due to the one-year postponement of this change in regulation.<sup>648</sup> Since the industry-specific tax relief was originally introduced as temporary aid for agricultural enterprises in 1931 is now withdrawn, the measure is classified as supply stimulus (SS), endogenous (N).

Another novelty that affected both the aforementioned *Einkommensteuergesetz* (Income Tax Act) and the *Körperschaftsteuergesetz*<sup>649</sup> (Corporation Tax Act) was the discretionary valuation option for short-life assets, which came into effect on 1 January 1934. According to this discretionary valuation option, fixed assets with an expected useful life of up to five years could already be fully deducted for tax purposes in the year of their acquisition. Reinhardt gives an estimation of 100 million RM as "reduced income in income tax and corporation tax as a result of tax relief for short-lived assets"<sup>650</sup> and states the intention of the measure: "The new regulation, concerning the valuation of short-lived assets, serves the idea of job creation and the goal of simplifying administration. Differences of opinion between the tax office and the taxpayer on the amount of depreciation for short-lived items are excluded in the future, as far as the limits upwards are considered."<sup>651</sup> Retrospectively, a bill from 1937 emphasises in particular the intended stimulating effect on entrepreneurial demand: "The discretionary

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<sup>646</sup>BA R 43-II/787, Blatt 175/8.

<sup>647</sup>Reinhardt (1934c, p. 90)

<sup>648</sup>AdRk Hitler, Band II,1 (1934/35), Dok. Nr. 12, p. 57.

<sup>649</sup>RGBL. 1934 I, p. 1031.

<sup>650</sup>RStBl. 1934, p. 1235.

<sup>651</sup>Reinhardt (1934c, pp. 79-80)



valuation option had been created by the Income Tax Act of 16 October 1934 in order to stimulate entrepreneurs to accelerate the acquisition or production of fixed assets and to expand their business facilities. It was intended essentially as a measure in the struggle to reduce unemployment and to increase the efficiency of business fixed assets.”<sup>652</sup> Although tax simplification is also an objective of the measure, it serves primarily to increase investment activity and is classified as demand management (DM), endogenous (N).

The *Gesetz über die Schätzung des Kulturbodens*, short *Bodenschätzungsgesetz*, included the reorganisation of the valuation regulations for agricultural land and thereby significantly influenced the land tax.<sup>653</sup> The law defines its objective as follows: “For the purpose of a fair distribution of taxes, a planned arrangement of land use and an improvement of the mortgaging documents, a land valuation is carried out for the agriculturally usable land of the Reich territory.”<sup>654</sup> In November 1935, the additional tax revenue resulting from the revaluation was estimated at 116 million RM per year.<sup>655</sup> Secretary of State Reinhardt emphasised the advantages of land valuation in terms of greater tax justice and simplification of valuation. Moreover, land valuation not only served tax purposes, but could also provide valuable services for agricultural policy purposes.<sup>656</sup> Due to the aim of the law to achieve tax justice, I classify the measure as exogenous (X), ideological (IL).

The amended *Vermögensteuergesetz* was applied from 1 April 1936.<sup>657</sup> According to this, among other changes, new allowances were granted for each family member within the wealth tax. “The 1936 budget estimate of 270 million RM takes into account that the newly introduced tax allowances of 10,000 RM for each family member, which greatly reduce the revenue, will take effect from 1 April 1936.”<sup>658</sup> For 1935, 310 million RM had been budgeted, so that a shortfall in revenue of 40 million RM can be assumed as a result of the tax amendment. The explanatory memorandum to the bill reads: “The introduction of the tax-free

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<sup>652</sup>BA R 43-II/792a, Blatt 164/2.

<sup>653</sup>RGBl. 1934 I, p. 1050.

<sup>654</sup>RGBl. 1934 I, p. 1050.

<sup>655</sup>BA R 2/20956; AdRk Hitler, Band II,1 (1934/35), Dok. Nr. 23 Anm. 15d.

<sup>656</sup>Reinhardt (1934c, p. 388)

<sup>657</sup>RGBl. 1934 I, p. 1052.

<sup>658</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1936, pp. 4, 26-27.

allowances mentioned above also puts the idea of population policy into practice in the wealth tax. The family father's sense of saving for his children is encouraged."<sup>659</sup> In this sense, Reinhardt generalises the "basic ideas" for amending the wealth tax as follows: "The realisation of population policy and economic policy demands of National Socialism necessitated a complete reorganisation of the regulations on the exemption limit. Until now, marital status was not taken into account at all in wealth tax. By introducing allowances, in future the married will be favoured over the single, the child-rich over the child-poor."<sup>660</sup> According to the outlined intention the measure is classified as ideological (IL), exogenous (X).

As of 1 January 1935, the new provisions on inheritance tax were implemented according to the *Gesetz zur Änderung des Erbschaftsteuergesetzes*.<sup>661</sup> Compared to the previous regulations, the law mitigated the inheritance tax for children and grandchildren by introducing allowances. It also changed the taxation of spouses in that only the surviving spouse who had children in common with the testator was exempt from tax. Furthermore, grandparents were treated the same as parents and siblings of the deceased with regard to inheritance tax, and no inheritance tax was levied on non-lifetime donations to the NSDAP.<sup>662</sup> Reinhardt estimates the "reduction in inheritance tax revenue due to the introduction of tax allowances for children and grandchildren" at 20 million RM.<sup>663</sup> Under the heading "Promotion of the Family, Population Policy", the "tax-free allowance for children also in inheritance tax" is discussed in more detail by Fritz Reinhardt: "The population policy idea has also come to fruition in the draft of the new inheritance tax law. (...) The introduction of an allowance for children and grandchildren is urgently needed. Up to now, there have been many cases in which sons or daughters, in the case of an inheritance of several ten thousand Reichsmarks in the form of real estate or the like, have had to struggle for years to raise the inheritance tax resulting from the inheritance, which had to be raised in cash, even though the inheritance was not in cash. As a result, the inheritance tax to be paid became a financial hardship in some cases. This state of affairs

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<sup>659</sup>BA R-43-II/787, Blatt 217.

<sup>660</sup>Reinhardt (1934c, p. 234)

<sup>661</sup>RGBL. 1934 I, p. 1056.

<sup>662</sup>BA R 43-II-787, Blatt 224-225; BA R 43-I/1470, Blatt 117-121.

<sup>663</sup>RStBl. 1934, pp. 1229-1236; Reinhardt (1934c, p. 17).

will be brought to an end in the draft of the new inheritance tax law.”<sup>664</sup> Based on the above reasoning, I classify the measure as exogenous (X), ideological (IL).

The new regulations on turnover tax under the *Umsatzsteuergesetz* took effect on 1 January 1935.<sup>665</sup> One of the relevant changes was the reduction of the turnover tax for domestic wholesale trade from 2% to ½%. Until this tax change, goods that were merely resold or transported but not stored were exempt from turnover tax. If goods were stored, the wholesaler had to pay 2% turnover tax. The new law was intended to treat stockholding wholesalers equally with non-stockholding wholesalers by introducing the same turnover tax rate of ½% for both, with some products being exempt from turnover tax altogether. The justification given for the uniform and also reduced tax rate for wholesalers is workload reduction for the administration and the businesses concerned, as well as the transitional opportunity to set up warehouses for all wholesalers. In this context, greater warehousing would result in a more evenly timed allocation of orders by wholesalers to industry, larger orders and thus more even employment, and would thus be an effective means of combating unemployment.<sup>666</sup> With regard to the difference between stockholding and non-stockholding wholesalers, Krosigk sums up: “We have now abolished this difference, and wholesalers, whether they stock or not, pay ½% turnover tax. This is a strong incentive for wholesalers to fulfil their economic function again - storing goods and supplying industry with long-term orders.”<sup>667</sup> Reinhardt expects a shortfall in revenue due to this measure of 85 million RM.<sup>668</sup> Since the unification measure aims to stimulate the demand for goods and the investment activity of wholesalers, I classify the measure as endogenous (N), demand management (DM). The second component of the new turnover tax law was the exemption from turnover tax for small amounts up to a tax amount of 20 RM per year.<sup>669</sup> Reinhardt calculates the “waiver” of the tax revenue lost through this passage of the law at 15 million RM. One of the principles of the “tax policy in the Adolf Hitler state” was the “granting of tax concessions

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<sup>664</sup>Reinhardt (1934a, p. 16)

<sup>665</sup>RGBL. 1934 I, p. 942.

<sup>666</sup>BA R 43-II/787, Blatt 230-231.

<sup>667</sup>von Krosigk (1935, p. 15)

<sup>668</sup>RStBl. 1934, pp. 1229-1236; Reinhardt (1934c, p. 16).

<sup>669</sup>RGBL. 1934 I, p. 960.

which are suitable to stimulate the covering of existing needs (...)” and should lead to the development cited under I as general objectives of the budget.<sup>670</sup> The classification for this measure is analogous to the reduction of turnover tax for domestic wholesale trade as endogenous (N), demand management (DM).

Part of the tax reform of October 1934 were also amendments to the *Kapitalverkehrsteuergesetz* (Capital Transaction Tax Act),<sup>671</sup> which brought changes to the *Gesellschaftsteuer* (Company Tax), the *Wertpapiersteuer* (Securities Tax) and the *Börsenumsatzsteuer* (Stock Exchange Turnover Tax) as of 1 January 1935. Part I of the law deals with the company tax which, in contrast to corporations, should no longer be levied on partnerships. The reason given was that the law of 5 July 1934 had already provided tax relief for the conversion of corporations into partnerships and that consequently the formation of partnerships could not be hindered by aggravating tax measures.<sup>672</sup> The preferential tax treatment of partnerships over corporations was based on ideological considerations: “It corresponds to National Socialist economic views to replace the anonymous form of the corporation with entrepreneurial personalities who run their business under their own responsibility and with the use of all their assets.”<sup>673</sup> As a projected result of this measure, the 1935 budget shows an estimated shortfall in revenue of 2 million RM compared to 1934.<sup>674</sup> Part II addresses the securities tax, for which the basis of taxation and the handling of foreign securities changed: “The new regulation serves to simplify the taxation procedure.” It also deals with exemption provisions, which were restricted compared to the legislation in force until then. “Just as in the case of company tax the tax exemption is limited to public utilities, in future only bonds issued by public utilities will be exempt from securities tax.” The reason given for the restrictions on exemption from company and securities tax is that there would be no reason for exemption if public enterprises were in competition with the private sector. Therefore, it only applies to “utilities whose shares belong exclusively to the public sector and whose income accrues to

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<sup>670</sup>RStBl. 1934, pp. 1229-1236; Reinhardt (1934c, pp. 16-17).

<sup>671</sup>RGBl. 1934 I, p. 1058.

<sup>672</sup>BA R 43-II/787, Blatt 243.

<sup>673</sup>Reinhardt (1934c, pp. 360-364)

<sup>674</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1935, pp. 3-4, 6-7.

it”.<sup>675</sup> In the 1935 budget, estimated additional revenue for the securities tax is given as 1 million RM compared to 1934, which can be attributed to the changed legislation.<sup>676</sup> According to the explanatory memoranda, the amended company tax and securities tax are about tax simplification and fairer taxation, closing tax avoidance loopholes and, in accordance with National Socialist ideas, also about promoting the entrepreneurial personality. Hence, I classify those measures as exogenous (X), ideological (IL). According to Part III, the stock exchange turnover tax should be dropped in the future for goods traded on the stock exchange and should not be reconsidered in the near future: “Taxing delivery transactions in grain would lead to an undesirable burden on agriculture and taxing forward transactions in metals, cotton, etc. would make it more difficult to supply raw materials to the German economy.”<sup>677</sup> The estimate for the stock exchange turnover tax 1935 assumes a shortfall in revenue of 3 million RM compared to 1934 due to the change in legislation.<sup>678</sup> Since it can be assumed that the elimination of the tax was intended to reduce prime costs on the producer side in order to support the corresponding business sectors for the benefit of the German economy, I classify this measure as supply stimulus (SS), endogenous (N).

The last change within the framework of the reform concerned the *Bürgersteuergesetz*, which granted the municipalities the right and, in specified cases, also the obligation to levy a citizens’ tax per calendar year on the members of the municipality according to certain Reich rates.<sup>679</sup> The new provisions came into force on 1 January 1935. It was considered to integrate the citizen’s tax into the income tax, but this was abandoned: “After considering all the pros and cons, it is recognised as expedient to leave the citizen’s tax as such in existence for the time being, but to strip it of its unsocial character as far as possible”. The tax change consisted in the future consideration of marital status by granting reductions for children and in the increase of the “exemption limit from 120 to 130 per cent of the general welfare support rate”.<sup>680</sup> There was another consideration regarding

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<sup>675</sup>BA R 43-II/787, Blatt 244.

<sup>676</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1935, pp. 3-4, 6-7.

<sup>677</sup>BA R 43-II/787, Blatt 245.

<sup>678</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1935, pp. 3-4, 6-7.

<sup>679</sup>RGBL. 1934 I, p. 985.

<sup>680</sup>BA R 43-II/787, Blatt 279-282.

the continuation of the citizen's tax and the presumed shortfall in revenue: "In the event of continuation, the citizen's tax will initially still be a support for the municipalities in the struggle to reduce unemployment. Once unemployment has been eliminated, the municipalities will have to compete to reduce their rates of citizen tax. The presumed loss due to the changes provided for in the draft compared to the previous law amounts to about 41 million Reichsmarks".<sup>681</sup> The measure is classified by me as exogenous (X), ideological (IL), since the aim was to eliminate the unsocial character of the existing law by providing relief for families and the indigent.

### Individual tax changes

On 20 April 1934, a *Ergänzungsverordnung zum Gesetz über Steuererleichterungen*<sup>682</sup> to the *Gesetz über Steuererleichterungen* of 15 July 1933<sup>683</sup> was issued, which became effective on 1 January 1934. "Pursuant to this ordinance, the owner of a building shall be granted a reduction of his assessed income tax liability or corporation tax liability in the amount of 10 per cent of the expenses if the repair or addition is carried out in the period from 1 January 1934 to 31 March 1935 and the owner of the building has not received a subsidy for the expenses from public funds. The tax reduction is granted for repairs and additions to any buildings, both residential buildings and those intended to serve any business." Reinhardt estimates the tax break to "help building owners and further stimulate the construction market."<sup>684</sup> at 25 million RM.<sup>685</sup> Since the purpose is to provide specific assistance to households and to stimulate investment, I classify the measure as demand management (DM), endogenous (N).

The provisions for taxing capital transfers abroad were tightened on 18 May 1934 with the *Gesetz über Änderungen der Vorschriften über die Reichsfluchtsteuer*.<sup>686</sup> The property exemption limits for the levy were reduced from 200,000 RM to 50,000 RM and, in addition, those who had earned a taxable income of

<sup>681</sup> AdRk Hitler, Band II/1 1934/35, Dok. Nr. 18.

<sup>682</sup> RGBl. 1934 I, p. 318.

<sup>683</sup> RGBl. 1933 I, p. 491.

<sup>684</sup> Reinhardt (1934e, pp. 26-27)

<sup>685</sup> RStBl. 1934, pp. 1229-1236.

<sup>686</sup> RGBl. 1934 I, p. 392.

more than 20,000 RM in one of the assessment periods from the year 1931 were charged. In the case of emigration, a one-time 25% tax had to be paid on the taxable assets. The explanatory memorandum states: “The regulations on the Reich Flight Tax are necessary to prevent the emigration of able-bodied taxpayers or, in the case of emigration, to make able-bodied taxpayers pay a final large levy as compensation for the fact that the Reich loses the tax power of the emigrant and that the emigrant was able to acquire or secure his assets under the protection of the Reich. (...) At the present time, some additions and changes are necessary in order to make the Reich Flight Tax more effective and to close existing loopholes as far as possible. Thereby, the exemption limit is to be changed as well.”<sup>687</sup> In the 1935 financial year, the Reich Flight Tax is entered at 10 million RM.<sup>688</sup> In the years before, no or no noteworthy revenues were budgeted for, because it was only through the tightening of regulations that the tax became quantifiable, so that it became of interest to the Reich budget. On the one hand, due to the intention to counteract present and future tax avoidance, and on the other hand, due to the intention to impose a fiscal burden on politically undesirable population groups in accordance with National Socialist ideology, the tax has a strong ideological connotation. Therefore, the measure is to be classified as exogenous (X), ideological (IL).

With regard to the slaughter tax, on 21 March 1935 the tax rates were reduced from 9 to 8 RM for pigs and from 2 to 1 RM for sheeps as of 1 April 1935 according to the *Verordnung über Änderung von Steuersätzen des Schlachtsteuergesetzes*.<sup>689</sup> The Reich and Prussian Minister for Food and Agriculture comments on the situation of the butchery industry in May 1935: “The market regulation for the trade in livestock and meat, in place since August 1934, serves the purpose of ensuring the supply of meat to the population by bringing supplies into line with demand and, in doing so, to set prices in such a way that they meet the legitimate concerns of both farmers and consumers while preserving the viability of the butcher’s trade. (...) In assessing the situation of the butcher’s trade, it must be taken into account that only recently the slaughter tax was reduced by 20,000,000

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<sup>687</sup>BA R 43-II/791, Blatt 49.

<sup>688</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1935, pp. 4, 22.

<sup>689</sup>RGBl. 1935 I, p. 391.

RM annually.”<sup>690</sup> Since the butchery industry is being given a tax cut to to overcome a sector-specific crisis by reducing production costs, I have classified the measure as endogenous (N) and supply stimulus (SS).

On 30 March 1935, a *Gesetz zur Förderung des Wohnungsbaus* was issued to promote housing construction, which came into effect on 1 April 1935.<sup>691</sup> The house interest tax, a state tax, also called *Gebäudeentschuldungssteuer*, was reduced by 25% for 1935 and 1936 compared to 1934. The taxpayer did not pay a reduced amount unless the tax was less than 200 RM per year, but received bonds in the amount of the reduction, i.e. the Reich gave him an “interest-bearing municipal debt rescheduling bond” in exchange, which he could choose to sell or keep.<sup>692</sup> The text of the law states that the “interest-bearing bond is to be made available in particular for the purposes of small housing estates and small housing construction”. Up to 50 million RM were to be used for this purpose.<sup>693</sup> The total amount to be raised by this law is quantified as follows: “The Reich Minister of Finance informed us that the nominal amount of the house rent tax affected by the law for the promotion of housing construction of 30 March 1935, amounts to an estimated 225 million RM.”<sup>694</sup> Housing construction, which was to be financed by the bond, would at the same time serve to “promote the creation of employment”.<sup>695</sup> Since the tax cut accrued to a bond to promote housing construction and thus went to an earmarked expenditure, I classify it as spending-driven (SD), endogenous (N).

### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *demand management* (DM) classification.

<sup>690</sup>BA R 43-II/193, Blatt 307, 311.

<sup>691</sup>RGBl. 1935 I, p. 469.

<sup>692</sup>Reinhardt (1937), pp. 13-14.

<sup>693</sup>RGBl. 1935 I, p. 469 § 2.

<sup>694</sup>AdRk Hitler, Band II (1934/35), Dok. Nr. 167.

<sup>695</sup>von Krosigk (1937), pp. 473-474.



## 1935/36 Budget:

*Reich Minister of Finance:* Johann Ludwig Graf Schwerin von Krosigk;  
*Chancellor of the German Reich:* Adolf Hitler (NSDAP)

### Context

During the 1934/35 fiscal year, the budget deficit had grown rapidly to 6 per cent of GDP.<sup>696</sup> While private investment growth declined in the first quarter of 1935 to 27 per cent and consumption rose by 9.4 per cent, economic activity continued to grow at double-digit rates over the previous four quarters.<sup>697</sup> The level of employment reached 14.7 million early 1935 with an unemployment rate of still 13.2 per cent. In the course of the upswing, the foreign trade surpluses that had built up since 1930 melted away, as did the gold and foreign exchange holdings of the Reichsbank, and Germany fell into a balance of payments crisis in the course of 1934. This shortage of foreign exchange was answered under the 'New Plan'<sup>698</sup> with import, commodity and foreign exchange controls combined with bilateral trade and clearing agreements to secure the import of necessary raw materials.<sup>699</sup> Domestically, both prices and money supply grew by a moderate 1.8 and 2.4 per cent during the previous fiscal year.<sup>700</sup> On 16 March 1935, Nazi Germany openly avowed its armament ambitions with a proclamation to the German people and the "Law for the Build-up of the Wehrmacht".<sup>701</sup>

### Overall budget objectives

In the context of the pre-budget report on the budgetary and financial situation of the Reich in March 1935, Schwerin von Krosigk already noted a coverage gap of 800 million RM for the 1934/35 fiscal year. For the upcoming budget, he already reckoned with a deficit of 2074 million RM, in particular due to the increase in defence expenditures to 2500 million RM. The deficit without the swelling defence

<sup>696</sup>Based on Ritschl (2002b), series C.2.3 and C.2.4.

<sup>697</sup>Ritschl (2002b), series C.2.6, C.2.1 and C.2.3.

<sup>698</sup>RGBl. 1934 I, p. 816.

<sup>699</sup>Ritschl (2002b), p. 187 and Ritschl (1991), Table 3.

<sup>700</sup>Ritschl (2002b), series C.2.5 and C.2.11.

<sup>701</sup>RGBl. 1935 I, p. 375.

expenditure, he suggests, could be covered by various accounting measures and in particular by an increase in tax revenue due to a continued economic upswing and an improvement in tax collection.<sup>702</sup> On 29 March 1935, a regulation on the Reich budget in the fiscal year 1935/36 was approved by the Cabinet but neither overall figures of revenues and expenditures nor departmental budgets were published “to avoid nonsensical rumours and malicious criticism doubting the soundness of our financial situation”<sup>703</sup>.<sup>704</sup> Schwerin von Krosigk pointed out that the growing tax revenues would not be sufficient to cover the ongoing deficits in the Reich budget. However, since “only a covered budget provides a secure basis for the great task of defence policy [...] a budgetary policy should be pursued which solves the problem of armament financing not only from the revenue side, but also from the expenditure side, i.e. by saving, through organic and planned reduction of other expenditures.” In order to perspectively return to a balanced budget, all civilian expenditures should be deferred or cut in favour of armament-related ones. Short-term budget deficits were intended to be covered by bond issues.<sup>705</sup>

In November 1933, in a programmatic speech on National Socialist fiscal policy, the Reich Minister of Finance professes a shift in priorities in fiscal and economic policy: “Job creation in the form of the spring of 1933 is now finished, and something else has taken its place, namely the armament of our people.” For this purpose, it was assumed to be necessary “to concentrate the entire budget expenditures on this one goal and also to concentrate the capital market on the one goal of procuring the credits for the armament.”<sup>706</sup> These hitherto mainly short-term loans taken out by the Reich would now be gradually funded by the increasing savings of the people in the form of long-term bonds.<sup>707</sup> At the same time, he admits that the rearmament and the resulting use of the capital market means that “we will have to disregard a whole range of economically necessary needs in the coming years”. This also means that “for a long time to come,

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<sup>702</sup> AdRk Hitler, Band II,1 (1934/35), Dok. Nr. 129, p. 482.

<sup>703</sup> AdRk Hitler, Band II,1 (1934/35), Dok. Nr. 129, p. 484.

<sup>704</sup> AdRk Hitler, Band II,1 (1934/35), Dok. Nr. 129, p. 484; 133, pp. 493-495; RGBL. 1935 II, p. 339; budget drafts in BA R 43-I/1472, Blatt 605-622 and R 43-II/758, Blatt 208-212.

<sup>705</sup> AdRk Hitler, Band II,1 (1934/35), Dok. Nr. 129, pp. 482-483.

<sup>706</sup> von Krosigk (1936), pp. 11-12.

<sup>707</sup> von Krosigk (1936), pp. 12-13; Examples include the Reich bonds that were subscribed by the savings banks in January and August 1935.

the state will have a particularly important role to play in the question of the distribution of orders between the public and the private sector.”<sup>708</sup>

### Individual tax changes

On 20 June 1935, the *Verordnung über die Führung eines Wareneingangsbuchs* introduced the obligation to keep a purchase journal for commercial businesses.<sup>709</sup>

“Since 1 October 1935, the decree on the keeping of a purchase journal has been in force. This measure alone, as can already be seen today, leads to an annual increase in Reich taxes of at least 300 million Reichsmarks. Two weeks ago an sales journal regulation was published. This will come into force on 1 October 1936 and will close further loopholes which have hitherto led to tax reductions.”<sup>710</sup> This measure is designed to improve tax collection and to counter tax evasion. Hence, it is classified as exogenous (X), ideological (IL).

On 24 September 1935, the spirits monopoly is amended through the *Gesetz zur Änderung des Gesetzes über das Branntweinmonopol*.<sup>711</sup> The change provided for an increase in the revenue per hectolitre from 250 RM to 275 RM for the sale of spirits from 1 October 1935. “The increase by 25 RM leads to the expectation of an additional revenue from hectolitres of about 17 million RM for the financial year according to the current sales conditions, which will flow into the Reich Treasury considerably earlier than before.”<sup>712</sup> In the explanatory memorandum to the law, it is stated that as a result of the forthcoming amendment, the surpluses of the monopoly administration would no longer be transferred to the Reich Treasury only at the end of the financial year, as was previously the case, but would, given the cash situation of the Reich, already be transferred throughout the year. Since the intention of the legislation is to improve the cash situation of the Reich in the short term, I classify the measure as endogenous (N), deficit reduction (DR).

An amendment was made to the citizen’s tax by means of the *Gesetz zur Änderung des Bürgersteuergesetzes* on 16 October 1935, which included an increase in the general exemption limits, taxation according to wealth ownership,

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<sup>708</sup>von Krosigk (1936), p. 14.

<sup>709</sup>RGBl. 1935 I, p. 752.

<sup>710</sup>BA R 43-II/792, Blatt 39.

<sup>711</sup>RGBl. 1935 I, p. 1177.

<sup>712</sup>BA R 43-II/804, Blatt 44-45.

and changes to the child allowance for the calendar year 1936.<sup>713</sup> With regard to the tax allowance, the following is stated in the explanatory memorandum to the law: “Since in the next few years the favourable results of the income tax assessments for 1934 ff. will make themselves felt in the assessment of the citizen’s tax and since, in addition, a continuation of the economic revival is to be expected for the future, it is possible to again relieve the less well-off citizens in the field of citizen’s tax. According to the draft, this relief is to be achieved by raising the general exemption limit from 130 to 150 per cent of the standard rates for welfare support. It corresponds to the special concerns of demographic policy not to grant this increase of the general exemption limit to single persons, but to exhaust their tax power also for purposes of the citizen’s tax in the previous amount. For general socio-political considerations, widowed and divorced persons who had exceeded the age of 50 on the reference date or whose household included minor children on the reference date or earlier were excluded from this special regulation. The loss of citizen tax resulting from this regulation is estimated to be about 7 to 9 million RM.”<sup>714</sup> Taxation according to wealth has been newly regulated in § 2 of the law and “meets an old demand for uniformity of the burden (...). The additional revenue from this measure will be estimated at 1 to 2 million.” There is no estimate of the change in revenue for the minor changes in child tax allowances also contained in § 2.<sup>715</sup> Based on the estimate of reduced revenue from § 1 of 7 to 9 million, offset by additional revenue of 1 to 2 million from § 2, I have assumed an expected shortfall in revenue of 7 million RM. I categorise the measures designed to ‘relieve the burden on the less well-off’ and ‘equalise the burden’ as ideological (IL), exogenous (X).

On 23 November 1935, the increase of lubricating and gas oil duties by 4 RM per quintal was announced in the *Verordnung über Zolländerungen*. The increased duties were to be applied from 30 November 1935.<sup>716</sup> In a letter to the Inspector General for German Roads dated 29 August 1936, the Reich Minister of Finance, Graf Schwerin von Krosigk states the extent to which he had so far contributed to the financing of funds for the construction of the highway network: “For the

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<sup>713</sup>RGBl. 1935 I, p. 1237.

<sup>714</sup>BA R 43-II/791, Blatt 112/2.

<sup>715</sup>BA R 43-II/791, Blatt 113.

<sup>716</sup>RGBl. 1935 I, p. 1357.

purposes of the Reichsautobahnen, I have introduced an increased lubricating and gas oil duty (...) which should yield up to 50 million RM annually.”<sup>717</sup> Since the increase in customs revenues is intended to serve the construction of the highways, I classify the tariff change as spending-driven (SD), endogenous (N).

On 10 January 1936, a *Gesetz zur Eingliederung der Genossenschaftsfabriken in das Zündwarenmonopol* was published to reorganise the match monopoly, which came into force retroactively as of 1 January 1936.<sup>718</sup> The aim of the law was to integrate the cooperative factories into the match monopoly, whose monopoly profits were now also to accrue to the Reich. The explanatory memorandum states: “The reorganisation will (...) lead to the result that the Reich will most likely receive over 300,000 RM more annually for the entire duration of the ignition goods monopoly, which is still at least 26 years (...), as would have been the case if the reorganisation had remained undone. Besides this financial result, it should be pointed out that the abolition of the special position of the cooperatives in the field of the ignition industry will at the same time eliminate an irregularity in the legislation which has frequently given rise to criticism.”<sup>719</sup> As this measure is an elimination of exemptions in monopoly legislation and is thus a standardisation of match monopoly levies, it is classified as exogenous (X) and long-run performance (LR).

### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *spending-driven* (SD) classification.

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<sup>717</sup>AdRk Hitler, Band III (1936), Dok. Nr. 137, p. 499.

<sup>718</sup>RGBl. 1936 I, p. 3.

<sup>719</sup>BA R 43-II/804, Blatt 51

## 1936/37 Budget:

*Reich Minister of Finance:* Johann Ludwig Graf Schwerin von Krosigk;  
*Chancellor of the German Reich:* Adolf Hitler (NSDAP)

### Context

Since a peak of 13.3 per cent in annual GDP growth in the third quarter of 1935 the pace in economic growth slowed down until the first quarter of 1936 but growth rates still remained in double-digits combined with slowing growth in private investment and consumption of 28.6 and 2.0 per cent respectively.<sup>720</sup> The 1935/36 budget deficit remained slightly below the previous year's mark of 6 per cent of GDP.<sup>721</sup> In the spring of 1936, employment exceeded 16 million persons, while the unemployment rate in the following quarter fell below the 10 per cent mark for the first time since the third quarter of 1929. During the financial year 1935/36, the development of prices and the money supply decoupled. While the money supply was already growing by 7.4 per cent, inflation was only 1.4 per cent.<sup>722</sup>

### Overall budget objectives

With a circular letter to subordinate authorities in January 1936, the Reich Minister of Finance left no doubt about the priorities of the following budgets: "According to the will of the Führer and Reich Chancellor, the building up of our Wehrmacht in all its parts and the implementation of general conscription is the most urgent need of the hour." To this end, all civilian expenditures were to take a step back and the task of the financial administration was clearly redefined: "With the task of providing the funds necessary for the implementation of the armament programme, a decisive responsibility has fallen to the fiscal authorities of the Reich."<sup>723</sup>

In the report on the 1936 Reich budget, the Reich Finance Minister noted that the budget excluding military expenditure had already closed in the previous

<sup>720</sup>Ritschl (2002b), series C.2.3, C.2.6 and C.2.1.

<sup>721</sup>Based on Ritschl (2002b), series C.2.3 and C.2.4.

<sup>722</sup>Ritschl (2002b), series C.2.11 and C.2.5.

<sup>723</sup>AdRk Hitler, Band III (1936), Dok. Nr. 20, p. 99.

financial year 1935/36 with a deficit of 1565 million RM, far above the planned figure. For the coming years, he defined the objective of drawing up a budget that “contains all Reich tasks and is fully balanced”. The budget should also include the permanent needs of the Wehrmacht and be covered by tax revenues and savings in other spending items. Graf Schwerin von Krosigk had not come any closer to this goal, since the budget for the Reichswehr was to be determined by Adolf Hitler himself in consultation with the Reich Minister of War.<sup>724</sup> The explanatory memorandum to the cabinet bill of 21 March 1936 also states that “it is necessary to refrain from establishing the overall sums of the Reich budget”.<sup>725</sup> This draft, which included a deficit of 875 million RM on the civilian part of the budget, was agreed on by the cabinet on 31 March 1936 after minor changes.<sup>726</sup> At this point, both the Reich Minister of Finance and the cabinet had *de facto* relinquished budgetary sovereignty and the expenditure side determined the extent to which revenue had to be generated via the capital market, the tax screw or the absorption of the surpluses of the social insurance funds.

In the late summer of 1936, Schwerin von Krosigk came to the following conclusion due to the positive development of the Reich’s revenues: “The Reich budget is being put in a stronger position from year to year to financially secure the build-up of the German Wehrmacht”.<sup>727</sup> With regard to the transition from job creation to rearmament, he states the following: “Job creation could be terminated, since it was replaced by other state policy tasks whose purpose was not of a labour market or economic policy nature, but whose effect was the same. Among these tasks, in addition to the continuation of the expansion of the Reichsautobahnen, arming the German people played the decisive role.”<sup>728</sup>

### Individual tax changes

In the 1936 financial year, the *Urkundensteuergesetz* of 5 May 1936 imposed a stamp duty that became effective on 1 July 1936.<sup>729</sup> The explanatory memoran-

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<sup>724</sup> AdRk Hitler, Band III (1936), Dok. Nr. 56, pp. 214-215.

<sup>725</sup> BA R 43-I/1475, Blatt 43.

<sup>726</sup> AdRk Hitler, Band III (1936), Dok. Nr. 56, 60; RGBl. 1936 II, p. 109.

<sup>727</sup> von Krosigk (1937, p. 477).

<sup>728</sup> von Krosigk (1937, p. 479).

<sup>729</sup> RGBl. 1936 I, p. 407.

dum states: “In the present law, the stamp taxes of the states are united and combined into a uniform Reich document law. It is precisely in the field of stamp duty that the principle of National Socialist tax policy is to be realised, namely that the multiplicity of tax laws is to be eliminated and tax legislation simplified. (...) The revenue from the tax on legal documents can be estimated at 40 million RM.”<sup>730</sup> Almost corresponding to this figure, the 1937 Reich budget shows an estimate of 42 million RM.<sup>731</sup> Since the Act aims at simplification and standardisation in the collection of documentary taxes, I classify it as exogenous (X), long-run performance (LR).

On 2 July 1936, the transport tax was amended by the *Gesetz zur Änderung des Beförderungsteuergesetzes*.<sup>732</sup> As of 1 October 1936, the commercial carriage of goods, which had previously only been taxed for the transport of goods by rail, was extended to road transport. In the area of passenger transport, the same extension was made as of 1 March 1937 for the commercial transport of passengers by motor vehicles.<sup>733</sup> The amendment to the law was justified as follows: “The financing of the construction of the Reichsautobahnen, in particular the interest and redemption of the liabilities incurred, makes it necessary to tap sources of revenue. An increase in motor vehicle tax, which today only affects commercial vehicles and old passenger cars, or the reintroduction of the motor vehicle tax for new passenger vehicles is out of the question. However, there are no objections to using commercial motor vehicle traffic to raise the funds. It is therefore expedient to extend the transport tax, which today only burdens railways, to the commercial transport of passengers and goods by motor vehicles.” An additional tax revenue of 39.4 million RM is calculated.<sup>734</sup> The budget gives an estimate of 20 mill. RM in additional revenue for each of the two above-mentioned provisions of the Act.<sup>735</sup> According to the explanatory memorandum of the Act, the revenue serves the construction of the highways and is thus spending-driven (SD), endogenous (N).

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<sup>730</sup>BA R 43-II/796, Blatt 245-252/8.

<sup>731</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1937, pp. 26-27.

<sup>732</sup>RGBl. 1936 I, p. 531.

<sup>733</sup>RGBl. 1936 I, p. 1131.

<sup>734</sup>BA R 43-II/798, Blatt 22-28.

<sup>735</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1937, pp. 26-27.



A gradual increase in corporation tax represents another change introduced by the *Gesetz zur Änderung des Körperschaftsteuergesetzes* in the financial year 1936. Due to the late announcement on 27 August 1936 for the calendar year 1936, the tax rate was initially limited to 25 per cent before 30 per cent applied from 1 January 1937.<sup>736</sup> In a letter to Hitler on 7 July 1936, Fritz Reinhardt, State Secretary in the Reich Ministry of Finance, gives the following reasons for the increase: “The total financial requirements (including the Wehrmacht and the Reichsautobahnen) exceed the sums that (...) can be achieved at present. (...) The increase of the corporation tax is not only fiscally contingent and politically necessary, but in the long run it is also necessary from the point of view of tax policy, in observance of the principle of uniformity of taxation.” Furthermore, he writes in this matter: “(...) the increase of the corporation tax (...), which is quite justifiable from an economic and political point of view and in my opinion even necessary politically, will permanently yield 400 to 500 million Reichsmark annually.” A postponement of the bill was not justifiable under the “(...) present financial necessities”.<sup>737</sup> In general, the funds for the Reich’s financial needs were not to be financed by tax increases at this point, although this did not rule out exceptions: “The expenditures of the Reich for the buildup of the German Wehrmacht require substantial funds. The expenditures will be covered by current tax revenues and by borrowings. In principle, the Reich Government refuses to introduce new taxes or to increase the rates of existing taxes. However, this does not preclude equalizing the burden within the existing tax system in the interest of the general public. (...) At a time when it is important to make as many resources as possible available to the public as a whole, it seems perfectly justifiable to increase the corporation tax.”<sup>738</sup>

The aspect of equal taxation can also be assessed as ideological, since the aim was to harmonise the taxation between partnerships and corporations, as until then, corporations had only been burdened with the lower corporation tax, while partnerships had to pay the higher income tax. Furthermore, it was expected that the profits of corporations would increase “as time progressed” and thus an

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<sup>736</sup>RGBl. 1936 I, p. 701.

<sup>737</sup>BA R 43-II/792, Blatt 40-43.

<sup>738</sup>BA R 43-II/792, Blatt 53.

increase in the number of such companies for the purpose of saving taxes was feared. Another reason why the government wanted to prevent the conversion of partnerships into corporations as far as possible was that it contradicted the “National Socialist principles”. The “healthy form of the general partnership, limited partnership or sole trader”, which assumed “personal liability” and “personal responsibility”, represented the ideal, while “the form of the corporation should only be chosen in those cases where it is indispensable for economic reasons”.<sup>739</sup>

The increase in corporate income tax seemed opportune especially because corporations in particular benefited from public work creation. Likewise, Hitler, after initially rejecting tax increases in general, was not averse to the increase in corporation tax, but insisted “that it must surely be possible to secure from the 250-350 million – possibly even more – additional revenue the funds necessary to be able to tackle the planned constructional development of the city of Berlin; His wish, which he had already expressed several times, to see 60 million Reichsmarks made available annually for this purpose for a period of 20 years, would now probably be brought closer to realization in connection with the expected increase in revenue. For the year 1936, the amount could be limited to 30 million Reichsmarks.” Hitler’s initial opposition to tax increases was shared by Reich Finance Minister Graf Schwerin von Krosigk. The latter’s reason for proposing the corporation tax increase was “that, despite the gratifying general upward trend in tax revenues, neither in 1936 nor in the future would tax revenues be sufficient to cover current armament costs.” He considered the tax increase to be the minimum necessary to come closer to covering the Reich’s financial needs and requested at the same time that further major projects such as the structural transformation of Berlin be postponed.<sup>740</sup> Hitler overruled the objections of the Reich Minister of Finance regarding the financial resources for the structural transformation of Berlin and, simultaneously with the issuance of the law to increase the corporation tax, ordered their provision.<sup>741</sup> The increase in the corporation tax to 30 per cent was expected to yield 500 million RM annually,<sup>742</sup> whereas “in view of the fact that part of the year 1936 has already elapsed, only half the amount of the

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<sup>739</sup>BA R 43-II/792, Blatt 41-42.

<sup>740</sup>BA R 43-II/792, Blatt 60-66.

<sup>741</sup>BA R 43-II/792, Blatt 69.

<sup>742</sup>BA R 43-II/792, Blatt 43.

increase is to be levied for 1936”,<sup>743</sup> so that the tax rate was limited to 25 per cent. The increase in the advance payments by half from the date of promulgation of the law in late summer 1936 results in a change in the corporate tax liability by an annualised 500 million RM.<sup>744</sup> Since the measure serves to cover current armament expenditures and at the same time provides funds for the urban development of Berlin, it can be classified as endogenous (N), spending-driven (SD). Nevertheless, the change can equally be classified as exogenous (X), ideological (IL), as it was intended to foster the personal liability of the entrepreneur in the National Socialist sense by aligning the taxation of legal persons with natural ones.

With the *Verordnung über Zolländerungen und über Mineralölsteuer* of 24 November 1936, the duties on imported and domestically produced oils were increased with effect from 1 December 1936.<sup>745</sup> It includes a change in the customs tariff for petroleum and for coal tar oils from 17 to 21 RM each, which led to an increase in customs revenues: “The increase in the two customs tariffs should yield a customs revenue of 113 million RM per year. This will be used to finance the construction of the Reichsautobahnen.”<sup>746</sup> The same law increased the equalisation tax on mineral oils: “The mineral oil equalisation tax was increased on 1 December 1936 from 1,- RM to 6,- RM for petrol and from 3,80 RM to 8,88 RM per quintal for benzene in order to ensure the financing of the further construction programme of the Reichsautobahnen (...).”<sup>747</sup> As a result of this measure, an increase in mineral oil tax revenues of 55 million RM over the previous year’s estimate was made in the 1937 budget. “The increase in mineral oil production will continue in the 1937 financial year. This circumstance and the increase in mineral oil tax by 5 RM per quintal lead us to expect the budgeted revenue.”<sup>748</sup> Both the increase of the two customs duties and the increase of the mineral oil equalisation tax serve the highway construction. I therefore classify the measures as spending-driven (SD), endogenous (N).

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<sup>743</sup>BA R 43-II/792, Blatt 54.

<sup>744</sup>BA R 43-II/792, Blatt 54.

<sup>745</sup>RGBl. 1936 I, p. 960.

<sup>746</sup>BA R 43-II/505, Blatt 43.

<sup>747</sup>AdRk Hitler, Band IV (1937), Dok. Nr. 179, p. 623.

<sup>748</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1937, p. 29.

**Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *spending-driven* (SD) classification.

## 1937/38 Budget:

*Reich Minister of Finance:* Johann Ludwig Graf Schwerin von Krosigk (NSDAP);  
*Chancellor of the German Reich:* Adolf Hitler (NSDAP)

### Context

While private consumption growth picked up again to 5.5 per cent over the twelve months of the budget year 1936/37, private investment growth continued to decline and grew by only 14.3 per cent.<sup>749</sup> Overall economic growth rose slightly and continued to reach double-digit growth rates at 12.6 per cent.<sup>750</sup> During the fiscal 1936/37 the budget deficit in terms of GDP slightly decreased to 5.6 per cent.<sup>751</sup> In October 1936, Adolf Hitler gave Hermann Göring far-reaching powers to implement the Four-Year Plan, which was designed to prepare both the German economy and army for war.<sup>752</sup> The process of decoupling money supply and prices continued during the fiscal year 1936/37. While the monetary base was already growing by 9.1 per cent, a price control institution was installed in October 1936 to enforce the price regulations that had become manifold.<sup>753</sup> Inflation had fallen to 0.5 per cent as a result of this far-reaching market intervention.<sup>754</sup>

### Overall budget objectives

In the course of the adoption of the 1937/38 budget, agreement was reached on the defence budget, but in that year it was in particular “the effects of other financially significant problems, primarily those of the Four-Year Plan and the takeover of the police, on the expenditure side of the Reich budget” that made it impossible to present an orderly budget draft. In an earlier draft, it had been stated that for the second time in a row, only a law on budgetary management would be enacted, which in this way “cannot claim to comply with the proven principles of proper budgetary management”. In the same way the addendum that

<sup>749</sup>Ritschl (2002b), series C.2.1 and C.2.6.

<sup>750</sup>Ritschl (2002b), series C.2.3.

<sup>751</sup>Based on Ritschl (2002b), series C.2.3 and C.2.4.

<sup>752</sup>RGBl. 1936 I, p. 887.

<sup>753</sup>RGBl. 1936 I, p. 927; Ritschl (2002b), series C.2.11.

<sup>754</sup>Ritschl (2002b), series C.2.5.

a return to an orderly budget should be implemented from the coming year on was deleted within the Reich Ministry of Finance before reaching the cabinet.<sup>755</sup> Revenue increases were expected mainly from the increase in corporate income tax from the previous year, from the income tax of the assessed and the turnover tax. These additional revenues were expected to amount to about 2.1 billion RM. The Budget Act was adopted by the cabinet on 19 March 1937 after deliberation on the points left open in the cabinet bill of 16 March and made into law.<sup>756</sup> Indicative of the spending practices of the individual departments is an averment by the Reich Minister of Finance from December 1937: “Recently, individual departments of the Reich have initiated expenditures for which no funds were made available in the budget or for which the planned funds were exhausted.” In future, he would no longer allow himself to be presented with a *fait accompli* and would approve this type of expenditure retrospectively. He also pointed out the personal liability of the individual civil servant responsible for such payments.<sup>757</sup> The 1937/38 financial year closed with expenditures amounting to 17.3 billion RM, of which around 4 billion RM had been financed by borrowing.<sup>758</sup>

In October 1937, von Krosigk justified the course of action and in particular the borrowing, “because despite the improvement in the budget situation, normal expenditure is naturally insufficient to finance the catching up on a rearmament that has been neglected for one and a half decades.”<sup>759</sup> Similarly, in terms of budgeting, he admits, “We have not yet reached the ultimate goal of taking all spending on the current budget, given the enormity of catching up, but we have come closer to it.” Tax increases would not be needed to finance the build-up since the tax revenue increases due to the continued economic development and improved tax collection would be sufficient.<sup>760</sup>

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<sup>755</sup> AdRk Hitler, Band IV (1937), Dok. Nr. 55, pp. 183-184

<sup>756</sup> AdRk Hitler, Band IV (1937), Dok. Nr. 55, 59; RGBl. 1937 II, p. 117.

<sup>757</sup> AdRk Hitler, Band IV (1937), Dok. Nr. 196.

<sup>758</sup> AdRk Hitler, Band IV (1937), Dok. Nr. 55, p. 184.

<sup>759</sup> von Krosigk (1938, p. 47).

<sup>760</sup> von Krosigk (1938, p. 51).

### Individual tax changes

The *Gesetz über eine Steuer der Personen, die nicht zur Erfüllung der zweijährigen aktiven Dienstpflicht einberufen werden*, short *Wehrsteuergesetz*, was passed on 20 July 1937 and introduced with effect from 1 August 1937 for males who were unable to fulfil their two-year active military service obligation and had received a non-call-up notice.<sup>761</sup> The non-conscription tax appears for the first time in the 1938 Reich budget with an estimated annual revenue of 18 million RM. Since the persons concerned, in contrast to those conscripted, could continue to exercise their profession without hindrance, “this professional and economic advantage (...) had to be compensated to some extent by a special tax for moral (defence pedagogical) reasons: a draft tax.”<sup>762</sup> Based on the ideological intention of the law, I classify the measure as *exogenous (X)*, *ideological (IL)*.

A *Drittes Gesetz zur Änderung des Bürgersteuergesetzes*<sup>763</sup> of 3 November 1937 was intended to eliminate “injustices” in the levying of the citizen’s tax by providing relief for the lower income groups and raising the tax-free allowances for children. “The calculations have shown a shortfall (...) of 53.5 million Reichsmark compared to the otherwise achieved average revenue (1936) of 450 million Reichsmark. However, this estimate is based on the 1934 income.”<sup>764</sup> I classify the measure, since it is based on considerations of justice, as *exogenous (X)*, *ideological (IL)*.

On 10 December 1937, a new nationwide itinerant trade tax was introduced as of 1 January 1938 by the *Gesetz über die Besteuerung des Wandergewerbes*,<sup>765</sup> which until then had been a matter for the federal states with different regulations. The bill describes the intention as follows: “(...) the uneven taxation and the different levels of taxation in the individual states are to disappear with the introduction of the new Reich regulation. (...) The itinerant trade tax, as envisaged in the draft, is a Reich tax. Article II, however, provides for a participation of the states in the revenue. This avoids a loss of revenue in the budgets of the states. The revenue from the itinerant trade tax in the states amounted to 5.3

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<sup>761</sup>RGBl. 1937 I, p. 821.

<sup>762</sup>AdRk Hitler, Band IV (1937), Dok. Nr. 99.

<sup>763</sup>RGBl. 1937 I, p. 1158.

<sup>764</sup>BA R 43-II/792a, Blatt 47.

<sup>765</sup>RGBl. 1937 I, p. 1348.

million RM in 1935 and is not expected to exceed 6 million RM in 1938.”<sup>766</sup> In fact, the 1938 budget for the first time shows an estimate of 7 million RM for the new tax. Since this is a simplification and standardisation measure, I classify it as *exogenous (X)*, *long-run performance (LR)*.

On 19 December 1937, the *Gesetz zur Verlängerung der Vorschriften über die Reichsfluchtsteuer* tightened and extended the application of the *Reichsfluchtsteuer* on capital transfers abroad by one year from 1 January 1938.<sup>767</sup> “The Reich Flight Tax is levied when a member of the German Reich emigrates. Its purpose is to compensate for the fact that the economic and fiscal capacity of the emigrant is finally lost to the Reich by means of a last larger property levy.” In addition to the extension of the regulations, the Act is concerned with “eliminating two loopholes” concerning gifts and tax exemptions for newly constructed residential buildings in the wealth tax.<sup>768</sup> According to the 1938 budget, the estimate of additional revenue for 1938 is 103 million RM. Since this measure was intended to counteract tax evasion, I classify the measure as *exogenous (X)*, *ideological (IL)*.

For the 1937 financial year, an amendment to the income tax is made on 1 February 1938 by the *Gesetz zur Änderung des Einkommensteuergesetzes*, consisting of three relevant changes.<sup>769</sup> One of them provides for prepayment changes and elimination of hardships, concerning the upper brackets of the income tax table retroactive to January 1, 1937. “Through the tariff structure in the attached new income tax table, it is achieved that even from the income exceeding 100,000 RM a certain amount remains. (...) The resulting shortfall amounts to only about 3 million RM annually.”<sup>770</sup> I classify this measure as *exogenous (X)*, *long-run performance (LR)*. The second tax change in this law is the withdrawal of the discretionary valuation option for short-life assets as of 1 October 1937. The explanatory memorandum to the bill states: “The freedom of assessment has certainly served its purpose. It would be economically misguided to leave it in place at a time of full employment in the machinery industry and shortage of raw materials. Many entrepreneurs would expand their operational facilities without

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<sup>766</sup>BA R 43-II/798, Blatt 59.

<sup>767</sup>RGBl. 1937 I, p. 1385.

<sup>768</sup>BA R 43-II/789, Blatt 165.

<sup>769</sup>RGBl. 1938 I, pp. 99-102.

<sup>770</sup>BA R 43-II/792a, Blatt 169-170.



a compelling reason, solely to save taxes. The exceptional financial needs of the Reich at present also dictate that this possibility of achieving tax savings should now be eliminated. It would be contrary to the principle of uniformity of taxation if, for instance, a general increase in tax rates had to be made because of the maintenance of the freedom of assessment.”<sup>771</sup> According to State Secretary Reinhardt, the amendment would aim to increase taxes and would not completely abolish the freedom of assessment, but only temporarily suspend it. “The Stat. Reichsamt calculated from this an additional tax revenue of 26-30 million RM;”<sup>772</sup> Since the measure was taken to curb increased investment by entrepreneurs with the aim of saving taxes, I classify it as *endogenous (N)*, *demand management (DM)*. The remarks fit into the picture of the overall budget objectives, which I have classified as endogenous (N), spending driven (SD). The third income tax change in February 1938 with application from 1 January 1937 was the mitigation of the income tax for non-single taxpayers and a redesign of the lowest bracket of the wage tax table. “It is important to note that the redesign of the lowest bracket of the income tax scale will bring it fully into line with the income tax scale, the resulting loss in income tax amounts to about 1 million Reichsmark. This amount will benefit the smallest income earners.”<sup>773</sup> Since this is a long-term support to a specific income group, I classify the measure as *exogenous (X)*, *long-run performance (LR)*.

### **Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous (N)*, *spending-driven (SD)* classification.

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<sup>771</sup>BA R 43-II/792a, Blatt 164/2, 165.

<sup>772</sup>AdRk Hitler, Band IV (1937), Dok. Nr. 170, Anm. 3.

<sup>773</sup>BA R 43-II/792a, Blatt 170.

## 1938/39 Budget:

*Reich Minister of Finance:* Johann Ludwig Graf Schwerin von Krosigk (NSDAP);  
*Chancellor of the German Reich:* Adolf Hitler (NSDAP)

### Context

The budget deficit, after stabilising below the threshold of 6 per cent of GDP in the three fiscal years between 1934/35 and 1936/37, grew to 7.2 per cent in the course of the fiscal year 1937/38.<sup>774</sup> In the second quarter of 1937, employment exceeded for the first time the previous peak from the second quarter of 1928 and climbed to over 18 million employees. By spring 1938, also the unemployment rate had fallen to 2.7 per cent. Both the growth of private consumption and private investment continued to decline in the course of the 1937/38 financial year, to 2.4 and 9.8 per cent respectively in the spring of 1938.<sup>775</sup> The same was true for GDP growth, which, although still growing strongly, had declined steadily since the end of 1936 from 12.8 to 10.4 per cent in the first quarter of 1938.<sup>776</sup> While prices increased by only 0.3 per cent within a year until the spring of 1938, the monetary base was already expanding by 11 per cent.<sup>777</sup> The military annexation of Austria by the German Reich was carried out in mid-March 1938.

### Overall budget objectives

By January 1938, the Reich Minister of Finance had already called a meeting to discuss the current and forthcoming financial year in view of the present financial situation. With regard to the financial year 1937/38, he had to state that despite increased revenues, the deficit at the end of the financial year would amount to one billion RM. Schwerin von Krosigk concluded from this: “Such a high deficit inevitably affects the Reich treasury and gives rise to fears of cash flow difficulties at the end of the financial year.” For the financial year 1938/39, he expected an additional tax revenue of two billion RM compared to the previous year, which would be “completely utilised for the significantly increasing debt service of the

<sup>774</sup>Based on Ritschl (2002b), series C.2.3 and C.2.4.

<sup>775</sup>Ritschl (2002b), series C.2.1 and C.2.6.

<sup>776</sup>Ritschl (2002b), series C.2.3.

<sup>777</sup>Ritschl (2002b), series C.2.5 and C.2.11.

Reich and for armament expenditures". Since the aim was to include defence expenditures in the regular budget and both these and the debt service were fixed in their amount, the civilian departments should cut their budget estimates below those of the previous year, if possible. For the preparation of the budget, the Reich Minister of Finance established the following principles against the background of the financial situation: Additional requirements would have to be based on an unconditional necessity. This would not apply to price increases, as wages and prices should be kept stable. The same applied to requirements with reference to their relevance to armament. In this context, there would be a clear hierarchy of urgency. Finally, requests for funds that are justified by increased employment would also be rejected. Schwerin von Krosigk provided the following justification for the rejection of projects that were intended to increase employment: "Unemployment is no longer a problem in the Reich today; on the contrary, there is a serious shortage of labour in many branches of work."<sup>778</sup>

This is followed in March by a further letter from the Reich Minister of Finance with guidelines for future armament financing. In this letter he demands that "in future, expenditures for the Wehrmacht should no longer be financed by means of the printing press, but by budgetary means and, insofar as this is not possible, on the money and capital markets". The previous creation of money and credit had led to distortions in economic, financial and monetary policy, which could be curbed by including armament expenditures in the regular budget. He formulated the goal of this measure in terms of a budgetary consolidation: "It must be avoided at all costs that the budget balance and the currency are endangered."<sup>779</sup> Schwerin von Krosigk had earmarked 11 billion RM for armament purposes. In order to keep to this estimate, less urgent projects were to be postponed and strict price controls and reductions were to be carried out. Of the 11 billion, 6 were to appear in the regular budget and the remaining 5 were to be raised on the money and capital markets. For this purpose, strict capital market controls should be continued. He outlined the role of his own ministry as follows: "The Reich Ministry of Finance, which will use all budgetary and cash reserves to finance the armament programme, will endeavour to ensure financing from the budget by the

<sup>778</sup> AdRk Hitler, Band V (1938), Dok. Nr. 4, pp. 11-13.

<sup>779</sup> AdRk Hitler, Band V (1938), Dok. Nr. 56, p. 196.

utmost restriction of all other expenditures and by recourse to any other reserves [...] which may still be exhausted.”<sup>780</sup> The attempt to reduce the budget deficit became a paper waste only a few days after the aforementioned letter with the military annexation of Austria.

Since there were no more cabinet meetings from the spring of 1938 onwards, the Reich budget was approved by circular resolution from that time onwards. This delayed the final drafting, so that, as had been customary since 1935, only a regulation on budgetary management was put into effect on 28 March 1938.<sup>781</sup>

### **Individual tax changes**

The State Secretary in the Reich Ministry of Finance, Fritz Reinhardt, reports on a meeting with Adolf Hitler at the Berghof on 27 June 1938, to the Reich Chancellery, which included the financial situation of the Reich, financing possibilities and the buildings in Nuremberg and Munich. One of his proposals included a corporation tax increase: “The Führer has agreed to my proposal to increase the corporation tax by one third and has instructed me to present the corresponding draft. (...) The proposed increase in corporation tax will yield about 450 million Reichsmarks for the present budget year 1938 and 600 to 650 million Reichsmarks in each of the budget years 1939 to 1940.”<sup>782</sup> In the accompanying letter to the ensuing bill to increase the corporation tax for the years 1938 to 1940, dated 6 July 1938, to the Reich Minister and Chief of the Reich Chancellery, he underlines the priority for passing the bill: “The necessity of this bill arises from the extraordinary financial requirements. (...) The bill is urgent because the first increased advance payment is to be made as early as 10 September 1938.”<sup>783</sup> As early as 10 July 1938 Reinhardt reports to Hitler on the progress of the results of the discussions held at the Berghof. In addition to the financing of the buildings in Munich and Nuremberg, the corporation tax increase is linked to the “financing

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<sup>780</sup> AdRk Hitler, Band V (1938), Dok. Nr. 56, pp. 197-198.

<sup>781</sup> RGBl. 1938 II, p. 97; On the budgetary process from February 1938, see Oshima (1980, p. 230).

<sup>782</sup> BA R 43-II/793, Blatt 92.

<sup>783</sup> BA R 43-II/793, Blatt 97.

of the other tasks". These in turn are not specified, but it is emphasised that Göring and Funk had already agreed to the impending tax increase.<sup>784</sup>

On 25 July 1938, the changes to the corporation tax for 1938, 1939 and 1940 are announced by the *Gesetz zur Erhöhung der Körperschaftsteuer für die Jahre 1938 bis 1940*.<sup>785</sup> The rate was raised retroactively from 1 January 1938 for profits of companies subject to unrestricted liability to corporation tax from 30 to 35, and in the case of the reduced rate for a restricted liability to corporation tax from 15 to 17.5 per cent. For the calendar years 1939 and 1940 the rate was to be raised further from 35 to 40 and 17.5 to 20 per cent respectively. Analogous to the mid-year increase in 1936, an annualised projected revenue change of 650 million RM is assigned to the announcement date. Due to the fact that the increase is placed in direct context to the high financial needs of the Reich, it seems appropriate to classify it as spending-driven (SD), endogenous (N). In continuation of the corporate tax increase of 27 August 1936, an ambiguity of both spending-driven (SD), endogenous (N) and ideological (IL), exogenous (X) motives can be assumed.

The *Verordnung über eine Sühneleistung der Juden deutscher Staatsangehörigkeit* of 12 November 1938 introduced the Jewish capital levy as an "expiatory payment of the Jews of German nationality", according to which 20 per cent of the assets over 5,000 RM were confiscated fiscally and a total amount of one billion RM was to be raised in four instalments of 5 per cent each.<sup>786</sup> Due to the failure to reach the required total amount, the levy on the assets was increased from 20 per cent to 25 per cent with a fifth instalment due on 15 November 1939.<sup>787</sup> The text of the law, issued as a decree by Hermann Göring, the General Plenipotentiary for the Four-Year Plan, shows the motivation behind it: "The hostile attitude of Jewry towards the German people and Reich, which does not even shrink from cowardly acts of murder, requires resolute defence and severe atonement. I therefore (...) decree the following: The Jews of German nationality in their entirety are ordered to pay a tribute of 1,000,000 Reichsmarks to the

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<sup>784</sup>BA R 43-II/793, Blatt 94.

<sup>785</sup>RGBL. 1938 I, p. 952.

<sup>786</sup>RGBL. 1938 I, p. 1579.

<sup>787</sup>RGBL. 1939 I, p. 2059.

German Reich.”<sup>788</sup> A few days after the enactment of the law, Göring, under the impression of the “very critical situation of the Reich’s finances”, remarked on 18 November 1938 that “remedy would first have been provided by the billion imposed on the Jewish community and by the Reich profits from the Aryanisation of Jewish enterprises.”<sup>789</sup> Due to the antisemitic orientation expressed in the law, the measure is classified as ideological (IL), exogenous (X).

A fire protection tax was introduced by the *Feuerschutzsteuergesetz* on 1 February 1939 as a Reich tax.<sup>790</sup> The tax liability was calculated according to the amount of revenue from insurance premiums, whereby the insurer was the tax debtor. The justification of the law reads: “The reorganisation of the fire protection system by the Reich requires that the funds previously raised for the promotion of fire extinguishing and preventive fire protection be levied by the Reich according to uniform principles and spent for fire protection purposes. (...) The tax is not an insurance tax. (...) Although the tax, like the insurance tax, accrues to the Reich, it serves the purposes of fire-fighting and preventive fire protection.”<sup>791</sup> The tax revenue from the fire protection tax is estimated at 22 million RM for 1939: “The estimate corresponds to the revenue calculation made when the law was enacted.”<sup>792</sup> Since the revenue of the tax is to serve the purposes of fire protection, the motivation of the tax change is classified as endogenous (N), spending driven (SD).

The adjustment of the tax rates for sweetener and a redefinition of the regulations for the accrual of the tax liability are announced by the *Süßstoffgesetz* on 1 February 1939. The sweetener tax change is to be effective from 1 March 1939<sup>793</sup> and is expected to generate about 1.85 million RM more in revenue compared to the previous year: “The estimate for 1939 reflects the increase in the sweetener tax.”<sup>794</sup> According to the explanatory memorandum, the tax’s provisions were adapted to those applicable to other excise duties and the tax rates had to be

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<sup>788</sup>RGBl. 1938 I, p. 1579. For an English translation, see PMJ vol. 2, Document 142.

<sup>789</sup>International Military Tribunal (1948, Document 3575-PS, pp. 411-415); Also cited in Mehl (1990, p. 69 ff.), Aly (2005, p. 62) or Kuller (2006, pp. 86-87).

<sup>790</sup>RGBl. 1939 I, p. 113.

<sup>791</sup>BA R 43-II/798, Blatt 70/71.

<sup>792</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1939, pp. 28-29.

<sup>793</sup>RGBl. 1939 I, p. 111.

<sup>794</sup>Haushalt der Allgemeinen Finanzverwaltung für das Rechnungsjahr 1939, pp. 30-31.

partly “re-determined taking into account prime costs, profits and sales prices on the one hand, and the present sales figures on the other”.<sup>795</sup> Due to the simplification and standardisation aspects, I classify the tax change as exogenous (X), long-run performance (LR).

On 17 February 1939 amendments to the income tax were passed as *Gesetz zur Änderung des Einkommensteuergesetzes*<sup>796</sup> and the new wording as a whole was promulgated in its altered form on 27 February 1939.<sup>797</sup> Firstly, and with retroactive effect from 1 January 1939, the tax allowances for domestic helpers were withdrawn, the lump sums deductible for special or income-related expenses for assessed persons as well as the deductibility of church tax were abolished. The abolition of the domestic helper privilege is aimed at reducing the demand for female labour: “The provision that 50 RM per month can be deducted for each domestic helper (Section 10(1)(1) of the Income Tax Act) was intended at that time as a measure to combat unemployment. Circumstances have changed completely since the time the provision was made (October 1934). Unemployment no longer exists. On the contrary, there is a shortage of labour. Housemaids are hard to get.”<sup>798</sup> In this sense Fritz Reinhardt concludes: “Nowadays the general interests of the people as a whole no longer require us to encourage an increase in the demand for domestic helpers; for today we are no longer in a struggle to reduce unemployment, but are concerned about meeting the demand for labour.”<sup>799</sup> With regard to the deductibility of church tax, the explanatory memorandum to the draft law states that “part of the church tax is borne by the Reich. There is no reason for such an absorption at the expense of the Reich.”<sup>800</sup> The elimination of the deductibility of church tax results in the non-deductibility of the lump sums for income-related and special expenses, since these “as a rule only arise for those taxpayers who pay contributions for insurance or to building societies or have expenses for travel between home and the place of work.” This tax change affects wage earners and self-employed persons to a different extent: “In the case

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<sup>795</sup>BA R 43-II/798b, Blatt 27.

<sup>796</sup>RGBl. 1939 I, p. 283.

<sup>797</sup>RGBl. 1939 I, p. 297.

<sup>798</sup>BA R 43-II/793, Blatt 123/6-124.

<sup>799</sup>Fritz Reinhardt, State Secretary in the Reich Ministry of Finance, *Völkischer Beobachter* 55th issue of 24 February 1939; BA R 43-II/793a.

<sup>800</sup>BA R 43-II/793, Blatt 124.

of tax deduction from wages, the lump sum for income-related expenses, which is incorporated in the wage tax table, will be maintained in the future. The wage taxpayer will therefore be better off in this respect in future than the assessed taxpayer. This preferential treatment appears justified in view of the fact that, in the case of non-assessed taxpayers, wages and salaries have remained essentially unchanged.”<sup>801</sup> These amendments to the income tax entail a change in tax revenue: “The additional income tax revenue from the amendment of Section 10 of the Income Tax Act (elimination of the various deductions) is estimated at 120 million annually.”<sup>802</sup>

Secondly, extensive changes have been made in the classification of tax brackets. On the one hand, there were tax reductions due to the extension of child reductions, which, however, did not apply to Jewish, adopted, step and foster children; on the other hand, unmarried persons, childless married persons and Jews were charged more with a tax rate of up to 55 per cent of their income. Taking into account the reduction in revenue due to the extension of child reductions, an increased receipt from income tax is nevertheless expected, being “estimated at 275 million RM annually.”<sup>803</sup>

Thirdly, the tax on supervisory board compensations is increased as of 1 April 1939: “§ 3 of the draft contains the proposal to increase the tax rate on supervisory board members from 10 per cent to 20 per cent. The additional tax revenue to be expected from this is estimated at 8 million RM annually.”<sup>804</sup>

The bill to amend the income tax leads to a controversial discussion especially about hardship cases with regard to the taxation of single persons and of public sector employees. However, according to Werner Zschintzsch, representing the Reich Minister for Science, Education and Culture, the impression was that “the hardships caused by the draft had to be accepted because of the general financial situation of the Reich.”<sup>805</sup> Similarly, the Reich Minister of Finance Schwerin von Krosigk, when sending the revised draft to the Reich Minister and Chief of the Reich Chancellery Dr. Lammers on 15 December 1938, reflects the objective

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<sup>801</sup>BA R 43-II/793, Blatt 125.

<sup>802</sup>AdRk Hitler, Band V (1938), Dok. Nr. 275, p. 920.

<sup>803</sup>BA R 43-II/793, Blatt 126; similar in AdRk Hitler, Band V (1938), Dok. Nr. 275, p. 920.

<sup>804</sup>BA R 43-II/793, Blatt 126.

<sup>805</sup>BA R 43-II/793, Blatt 141.



of Field Marshal General Hermann Göring: “He considers the law to be urgently necessary not only for reasons of financial policy but also for reasons of population policy.”<sup>806</sup> I classify the measures of the law as endogenous (N), spending-driven (SD) because of its predominantly fiscal importance, even though partial aspects, such as the tax treatment of Jews or the abolition of the deductibility of church tax, can be seen as ideological.

The New Financial Plan, enacted as a *Gesetz über die Finanzierung national-politischer Aufgaben des Reichs*, which was to ensure “the financing of national political tasks of the Reich”, includes in Section III the new introduction of a surtax on increased income over the preceding year (*Mehreinkommensteuer*).<sup>807</sup> The law is promulgated on 20 March 1939 with retroactive effect from 1 January 1939. The levy of 30 per cent of additional income or profit over the previous year applies to taxpayers subject to income or corporation tax; i.e. a taxpayer who has to pay tax on his additional income for 1939 will have his additional income between 1937 and 1938 taken as a basis for the calculation. The tax is similar in idea to the excess profits tax. The same law includes in Section I the issuance of tax vouchers for the payment of contractors, while Section II addresses the loss of revenue associated with the subsequent redemption of the tax vouchers and its compensation: “In order to compensate for the loss of tax revenue of the Reich resulting from the use of tax vouchers in the payment of Reich taxes, an additional income tax shall be levied for as long as the budgetary situation of the Reich requires it.”<sup>808</sup> The extraordinary financial need was explained “not only by the great national political tasks that must be fulfilled for the sake of the German people, but also by the increase in interest service and other debt service of the Reich.”<sup>809</sup> These measures contributed to the coverage: “The tax voucher scheme is expected to yield 8 billion Reichsmarks in the 1939 financial year, the *Mehreinkommensteuer* about 500 million Reichsmarks.”<sup>810</sup> Since the new introduction of the additional income tax is linked to a specific expenditure, the debt service, I classify it as endogenous (N) and spending-driven (SD).

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<sup>806</sup>BA R 43-II/793, sheet 150.

<sup>807</sup>RGBl. 1939 I, p. 562.

<sup>808</sup>BA R 43-II/789a, Blatt 155.

<sup>809</sup>BA R 43-II/789a, Blatt 140.

<sup>810</sup>BA R 43-II/789a, Blatt 129.

**Pan-budget classification (robustness)**

Classifying all measures in this budget according to the overall budget objectives would result in an *endogenous* (N), *spending-driven* (SD) classification.

## Chapter 4

# The Fiscal Multiplier - Narrative Evidence from Interwar German Tax Changes

*“A people can only thrive with orderly state  
finances.”*

— Heinrich Brüning (1930)

## 4.1 Introduction

How do changes in fiscal policy affect the economy? Can tax cuts provide a fiscal stimulus? Will tax increases or austerity stifle economic growth? These questions about the effect of fiscal policy, which faced German policymakers at turning points in history during the interwar period, remain controversial to this day and across borders, while the empirical evidence remains unclear. In this paper, we use Germany between hyperinflation and WWII as a laboratory to illuminate the question of what impact changes in taxation have on the overall economy. Policy relevance of this topic arises from the fact that in combating the effects of the Corona pandemic and the Russian invasion of Ukraine, public debt has soared to unknown heights and the debate is just gaining momentum on whether and when to raise taxes to finance the current “crisis”.

What makes evaluating the impact of fiscal policy so difficult is that the cause and effect of changes in fiscal policy and economic activity must be disentangled. However, a diligent analysis of selected historical epochs can provide us with intriguing policy alterations that, with the help of observational data, serve as a natural experiment and allow us to draw a causal inference. The German Reich of the interwar period offers precisely these conditions for estimating the effects of tax changes. It is precisely this period that repeatedly ignites debates about the possibilities and impossibilities of fiscal policy. While Germany’s tax policy in the second half of the 1920s profited greatly from the economic upswing, Heinrich Brüning enforced strict austerity between 1930 and 1932 by emergency decrees in order to stabilise public finances that had become distressed as a result of the Great Depression. When the National Socialists came to power, tax cuts and increased government spending went hand in hand in 1933-34 until, by 1935 at the latest, tax policy had become subject to the primacy of rearmament.

Referring to documents from the legislative process for the budget and taxation as well as minutes from 15 budget years, we construct a dataset of almost 200 tax changes between 1925 and 1939. Using the narrative approach, we follow Romer and Romer (2010) to identify all those exogenous tax changes that were taken independently of economic fluctuations. For this purpose, we trace the motivations that prompted decision-makers to pursue policy reforms. This

methodology helps us to isolate exogenous variation in tax policy and use it to estimate the impact of tax policy on the macroeconomy. Despite the fact that, on the surface, budget negotiations have always been about formally balancing revenues and expenditures, extensive narrative analysis of German fiscal policy reveals a wide variety of motives for raising and lowering taxes, responding both to economic developments or pursuing ideological and social objectives. For the purpose of identification, we can exploit this high degree of variation. While measures relating to current or short-term economic developments are collected in an endogenous series, all changes driven by long-term objectives independent of the current state of the economy are aggregated in an exogenous series. In order to test the accuracy of our classification, we run Granger causality tests for the two resulting groups of tax changes. While macroeconomic variables cannot predict the series of exogenous tax changes, they do Granger-cause endogenous policy changes.

Based on our narrative series of tax reforms, we estimate a multiplier that indicates by how many percentage points GDP changes as a result of a tax shock of one percent of GDP. The results show a statistically significant positive effect. This result can be interpreted as follows: A tax hike of one per cent of GDP increases GDP by up to 2.5 per cent after five quarters. For both the interwar and postwar periods, studies based on such a narrative approach, as used in this paper, find consistently negative tax multipliers exceeding -1. The non-standard results in this paper withstand a number of different specifications and robustness checks, while suggesting expansionary taxation. Compared to expenditure multipliers, tax multipliers build up over a longer period of time. The effects of the policy change on inflation and the monetary base are small. In the first year, the real interest rate falls significantly, while private investment and consumption rise. Unemployment declines in response to the tax increase. The results are strongly influenced by exogenous variation at the beginning of the sample in 1925/26, suggesting that the credible tax increases were a signal to investors that Germany would meet its reparations obligations. This confidence-enhancing measure may have encouraged capital inflows and hence an increase in investment and consumption.

The results above are based on treating Brüning's austerity policy as endogenous. The usual tests of predictability confirm this assumption, but the qualitative

evidence from the over 40-year continuing Borchardt debate on Heinrich Brüning's constraints and room for manoeuvre between 1930 and 1932 cannot simply be dismissed (Borchardt, 1979; Holtfrerich, 1982). It offers equally strong arguments for considering the measures as exogenous. We do so in an alternative classification. The results are striking. The addition of the austerity shocks reverses the sign of the tax multiplier and restores the standard evidence. The multiplier is up to -8 after two years, but not statistically significant. Adding a control variable for the stricter payment modalities of the Young Plan for the reparations reduces the peak effect to only -1.5, suggesting a stronger role for the reparations regime itself rather than the austerity policy.

Apart from the historical interest in the German interwar period, this period is particularly suitable for the task. Although the legislative process is subject to political breaks and tax issues are not consistently discussed in the context of the budget, the legislative processes are well documented. Through a re-collection of budgets and bills, supplemented by cabinet and parliamentary minutes, we are able to trace the development of tax law through a detailed record of policy reforms in the Weimar Republic and Nazi Germany. These documents contain estimates of the expected change in revenue and, in their abundance, reveal the specific intentions of the changes. In particular, government statements by the Chancellor of the Reich in conjunction with annual speeches by the Reich Finance Minister explain the general thrust of policy changes and the motivations behind individual measures. The individual years are systematically detailed in the accompanying Chapter 3, which contains the narrative account and the data itself.

Through the narrative evidence and identification described above, this paper contributes to the literature threefold. First, by constructing a narrative record, it identifies a quasi-natural experiment and provides a statistically significant estimate of the macroeconomic effects of tax changes in Germany between 1925 and 1939. Second, our work continues to contribute to the international evidence on sampling over different time periods. This particular case study offers an example from the German interwar period, with new non-standard evidence. The standard evidence can be easily restored by drawing on the qualitative evidence of the singularity of the German interwar period. Third, this paper contributes

to the historiography by providing a detailed budget-by-budget and tax-by-tax analysis of German fiscal policy.

**Related Literature.** In particular, with the contributions described above, this paper adds to two existing strands of the literature. One is the literature dealing with the macroeconomic impact of fiscal policy changes. While structural vector autoregression (SVAR)s, as in Blanchard and Perotti (2002), make assumptions about the structural relationships between taxes, government spending and macroeconomic developments in order to identify the underlying structural shocks and estimate the implied impulse responses to these, Mountford and Uhlig (2009) make further assumptions about the sign of the impulse response to derive tax and government spending multipliers. The narrative approach, on the other hand, was first introduced into the literature evaluating fiscal policy by Romer and Romer (2010) to derive tax multipliers. Starting from country cases<sup>1</sup> and methodological discussions,<sup>2</sup> it has spawned a large number of studies, in particular on the effects of tax changes taken for specific motives,<sup>3</sup> in specific tax types,<sup>4</sup> during specific fiscal or monetary policy regimes,<sup>5</sup> or over the business cycle.<sup>6</sup> In general, the literature finds an inverse relationship between taxation and macroeconomic performance. This makes sense in that tax increases reduce economic activity. Unlike

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<sup>1</sup>For post-WWI evidence in the US: Romer and Romer (2010), the UK: Cloyne (2013), Germany: Hayo and Uhl (2014), Portugal: Pereira and Wemans (2015), Spain: Gil et al. (2019), Canada: Guerreiro Lopes (2016), Hussain and Liu (2019, 2024) and Croatia: Deskar-Škrbić et al. (2021).

<sup>2</sup>For example, attempts to reconcile narrative identification with SVARs (Favero and Giavazzi, 2012; Chahrour et al., 2012; Stock and Watson, 2012; Mertens and Ravn, 2012, 2014; Caldara and Kamps, 2017), concerns regarding fiscal foresight (Mertens and Ravn, 2012) or asymmetric effects of tax hikes and cuts (Jones et al., 2015; Hussain and Malik, 2016).

<sup>3</sup>See, inter alia, Alesina and Ardagna (2010), Guajardo et al. (2014), Alesina et al. (2015), Jordà and Taylor (2016), Riera-Crichton et al. (2016) and Alesina et al. (2019b) on the impact of policy changes driven by fiscal consolidation. Alesina et al. (2019a) surveys the literature on austerity.

<sup>4</sup>For example, the literature considers the impact differentiated by the type of tax that is changed. In particular, a distinction is made between taxes on consumption, personal income or corporations (Mertens and Ravn, 2013; Cloyne and Surico, 2017; Mertens and Montiel Olea, 2018; Nguyen et al., 2021).

<sup>5</sup>Examples include the initial taxation level as a determinant of the multiplier (Gunter et al., 2021) or the flanking monetary policy (Jones and Olson, 2014; Kato et al., 2018a).

<sup>6</sup>For the behaviour of the fiscal multiplier of taxation during periods of economic expansion compared to recession, see Eskandari (2015), Peren Arin et al. (2015), Demirel (2021), Ghassibe and Zanetti (2022) or Fotiou (2022).

government spending multipliers, the effect of tax changes is initially modest but builds up over time. While the narrative-based evidence provides surprisingly consistent and large tax multipliers between -2 and -3 across country samples, the SVAR literature finds only small effects around -1 (Blanchard and Perotti, 2002; Barro and Redlick, 2011) or, when extended by sign restrictions, particularly large ones at -5 (Mountford and Uhlig, 2009). Based on the methodological approaches, there are large divergences on the impact of tax changes on the macroeconomy. In particular, there is both empirical and theoretical dissonance at the important threshold of -1 for the multiplier, i.e. whether one loses more or less than one monetary unit of GDP for one additional unit of tax levied.<sup>7</sup> Since the literature estimating the impact of tax changes on macroeconomic variables is largely limited to the post-war period and is at the same time based on a few data sets, it is important to extend the existing sample with further quasi-natural experiments from historical periods. By means of its elaborate historical analysis, this paper makes the necessary exogenous variation in German tax policy between 1925 and 1939 available for empirical analysis. It adds to the existing literature not only by providing an additional narrative record, but also by providing empirical insights into the effects of tax policy in the interwar period.

The second strand of literature to which we contribute is the long-standing debate on the effects of government spending and taxation in the interwar period. In the spirit of modern macroeconomic literature, numerous papers use military spending as a natural experiment to identify the effects of government expenditure. The underlying rationale is that defence spending is driven by securitarian concerns rather than economic conditions (Hall, 1980; Barro, 1981; Ramey and Shapiro, 1998; Ramey, 2011b). While the vast majority draws on long time series starting with WWII, Crafts and Mills (2013, 2015) find a government expenditure multiplier ranging from 0.5 to 0.8 for the UK between 1922 and 1938 suggesting that retrenchment was not self-defeating and that deficit-financed rearmament would have raised government revenues sufficiently to service the additional loans. In a panel of 27 countries spanning the period 1925-39, Almunia et al. (2014) es-

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<sup>7</sup>In addition to the empirical literature based on times-series estimates, theoretical New Keynesian DSGE models produce tax multipliers well below unity (Coenen et al., 2012; Zubairy, 2014; Sims and Wolff, 2018).



estimate the multiplier of defence-related spending to be between 1.1 and 2.5. A VAR yields a government spending multiplier of 1.8 for fiscal policy innovations in Gordon and Krenn (2010) for the US economy between 1919 and mid-1941. Recalling the narrative identification of exogenous variation in tax reforms introduced earlier, Cloyne et al. (2018, 2024) apply it to interwar Britain. Using time series techniques, they find a multiplier effect of 2 to 3 for tax policy changes. The above results for interwar Britain are also consistent with the post-war evidence, especially in the sense that the government spending multipliers derived from time series analysis are smaller than the tax multipliers.<sup>8</sup> The narratively identified evidence concludes with a study on the incentivisation of marginal tax rates in the US by Romer and Romer (2014) using US interwar data. Turning to the German interwar period, Ritschl (2002a,b, 2013) estimates a time-varying government budget deficit multiplier. This implicitly assumes that the government spending and tax multiplier equal each other. While the deficit multiplier rises massively with the growing deficits from 1934 onwards and begins to exceed 1 over a horizon of 8 quarters, the effects before that are negligible. In particular, in the period of balanced budgets during Brüning's austerity policy, he finds a multiplier of 0.1 and 0.12 over one to two years. While the role of the Third Reich's military Keynesianism in the economic recovery from the Great Depression and Heinrich Brüning's economic and fiscal policy alternatives have received much attention in economic history, the role of tax policy in interwar Germany has gone largely unnoticed. We hope to fill this gap by providing a detailed historical and empirical analysis of tax policy during this period, shedding new light on these issues and adding novel insights on the impact of tax policy in interwar Germany to the literature.

In the remaining part of the paper, we proceed as follows. In the following Section 4.2 we introduce the empirical identification strategy, the data basis and the application of the narrative approach to it. In Section 4.3 we provide a brief overview of the narratively identified fiscal changes and present the resulting new series of exogenous tax shocks. Baseline results on the effect of tax changes on the macroeconomy are shown in Section 4.4. Robustness checks are conducted in

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<sup>8</sup>A comprehensive review of the literature on fiscal multiplier offers Ramey (2011a, 2019).

Section 4.5 and presented along with further results. The results are discussed in Section 4.6 before Section 4.7 offers some concluding remarks.

## 4.2 Empirical Strategy and Data

To assess the impact of tax changes, we have recourse to the concept of the multiplier, introduced by Keynes (1933, 1936) and earlier formalised by Kahn (1931). The fiscal multiplier indicates the change in GDP in RM for a tax increase of 1 RM. To arrive at this multiplier, we look at the movement of economic activity relative to the behaviour of tax receipts as a result of a tax change over a given period. However, since tax revenue also depends on economic development, this requires the identification of exogenous variation through narrative analysis. What follows is a description of the underlying idea, the historical sources used for the quantitative analysis and, finally, the qualitative distinction made between exogenous and endogenous tax changes.

### 4.2.1 Empirical Strategy

Policymakers' decisions on tax changes react to the economic environment, and at the same time these decisions also have a direct impact on the economic development. This simultaneity poses a challenge for the identification of the causal effect of tax changes on macroeconomic variables. While long time series with a high frequency are available for studies estimating the effect of tax changes on the economy for the period after WWII, there are further problems associated with the interwar period arising from short samples and unavailable or only reconstructed data.

Our identification strategy must disentangle the cause and effect of tax changes. To do so, we distinguish tax changes between those that were made independently of recent economic developments and reflect, for example, changing political views or had to be made due to external constraints, and those where tax policy responds directly to macroeconomic variables such as unemployment or industrial production. This narrative approach was first applied to post-WWII data by Romer and Romer (2010) for the United States to identify the causal effect of tax changes. In

distinguishing tax changes, this paper borrows from Cloyne (2013), who applied the methodology to the United Kingdom. Tax policy in the interwar period, like for the UK shown by Cloyne et al. (2018), offers in Germany a variety of cases for both types described due to its economic development, numerous policy changes and external linkages.

Drawing on historical material, we start by constructing a comprehensive dataset of all changes in taxation imposed in Germany between 1925 and 1939. In about 14 fiscal years, nearly 200 individual tax changes were made as part of major reforms or individual laws. In their variation, these depict the changeable political landscape of the interwar period in tax policy. To identify the causal effect of tax changes, we need to filter out exogenous variation in taxation. In accordance with Romer and Romer (2010) and Cloyne (2013), we refer to exogenous tax reforms in this context as all those changes that do not respond to current or future economic developments. This form of weak exogeneity is sufficient, as we can control for observed past macroeconomic fluctuations. In principle, strict exogeneity of tax reforms with respect to past, present and future movements in covariates is desirable. Where possible, we try to ensure that this stricter condition is also met. At least the softer condition can be tested subsequently through an ex-post validity check by testing whether the series is predictable by past movements in macroeconomic variables.

We isolate the exogenous tax changes by examining the rationale behind a reform in the context of a narrative analysis. This allows us to differentiate those tax changes that are endogenously motivated by economic developments from exogenous ones. The German interwar period offers a broad spectrum of tax changes, a significant proportion of which can be regarded as exogenously motivated. These provide the variation required for a quasi-natural experiment to identify the causal relationship between tax changes and macroeconomic performance.

### 4.2.2 Data

Drawing up the budget for 1 April was always the most important event in the fiscal year. Both in the Weimar Republic and in the Third Reich, extensive deliberations were held as part of this process. Whereas in the period of parliamentary

democracy, the end of the budget preparation process was accompanied by an annual *Finanzieller Überblick*, which outlined the state of public finances, and marked by a Reich Finance Minister's address to the parliament outlining the budget situation and the fiscal priorities of the cabinet for the year ahead, from 1933 onwards this process took place behind closed doors. However, the latter does not detract from the good documentation. Only in the budget years in which acute budget holes were to be plugged by new taxes or tax changes did deliberations and adoptions take place as part of the budget process. For the most part, changes to tax law were made independently of the budget throughout the year.

To compile our dataset of tax policy changes, we record the law, the content of the respective change, its announcement and implementation, as well as its revenue effect, and finally the classification of its driving motivation. In order to create an overview of all tax changes, we resort to contemporary overviews and verify them by means of official gazettes. Using these, in particular the *Reichsgesetzblatt* and the *Reichssteuerblatt*, we enrich the dataset with information on the date of announcement and implementation and potentially the validity of a change.

We take the revenue change estimate primarily from the Reich Budgets and the explanatory memoranda attached to the draft laws. These are supplemented by further published and unpublished archival material. In the budget, a revenue estimate is made for each tax for the following year and a corresponding description is given of which recent economic developments or changes in tax law were taken into account. The projected revenue change of a tax amendment is thus the difference from the previous year's revenue estimate. In the accompanying material of draft legislation, the estimate of the expected revenue impact of the changes is not mandatory, but often part of the explanatory notes.

The expected increases or decreases in revenue from both sources are scaled to a "full year" where necessary and are mostly based on assuming that the tax base will remain unaffected by confounding influences. Thus, the estimates of the revenue change due to a tax change represent a projection based on current information, with the tax base otherwise remaining unchanged. The fact that the data meet the *ceteris paribus* assumption overcomes problems with accrued tax

revenues reflecting other economic fluctuations, behavioural changes, and the like in addition to the impact of the tax reform.

Finally, the tax change is now categorised according to its motivation. The most important distinction is whether the rationale is endogenous or exogenous. For this purpose, the justifications given by the government in the course of the legislative process are carefully examined. On the one hand, the deliberations during the course of the legislative process provide insight, and on the other hand, the explanatory memoranda attached to the drafts. While the deliberations in parliament reflect the views of the government in the days of the Weimar Republic, from the presidential cabinets onwards these discussions increasingly shift to the cabinet level. In order to take sufficient account of the erosion of parliamentary democracy, both the Reichstag minutes and the cabinet minutes are used for assessment. Independently of these, detailed bills along with justifications were drafted over the entire period. In triad, these types of documents provide a useful starting point for examining the objectives and motivations for the budget and for policy changes. They can be found in the *Verhandlungen des Deutschen Reichstags*, the *Akten der Reichskanzlei* and the underlying and supplementary file material in the Bundesarchiv. On the basis of these documents, a comprehensive understanding of economic development, common budgetary practice, the budgetary position, but also foreign policy issues such as reparations, which influenced fiscal policy decisions, emerges. Where necessary, we also draw on a number of other historical sources. All of this information leads to a classification system, which is explained in more detail below, that incorporates significantly more qualitative delimitations within the primary distinction in endogenous or exogenous.

The fact that tax changes were mostly debated independently of the budget suggests that they can be analysed one-by-one. However, each policy change must be seen in a broader continuity. Here it becomes necessary, with recourse to budget speeches among other things, to fathom the overarching goals of amendments to taxation, whereby the specific motivations stated in part in the individual legislative justifications may well diverge from these. An example of this are, for example, Brüning's emergency decrees, which followed the superordinate goal of deficit reduction and are thus to be classified as endogenous, while in larger

sections they sought to simplify tax law and thus reduce the administrative burden, which in turn would be classified as exogenous. Accordingly, individual tax changes that are seen in a larger legislative context are usually considered as a package and thus are also classified jointly.

### 4.2.3 Classification of Motives

To address the identification problem, we assign a motivation to each tax change. The main distinction is whether they were endogenous, i.e. their policy change was a reaction to current or expected economic developments such as the budget deficit, unemployment or inflation, or exogenous, following social or ideological goals. While classifying tax changes as exogenous (X) and endogenous (N) serves identification purposes, following Romer and Romer (2010) and Cloyne (2013), they break down into further sub-categories. Rather than being uniquely separable and thus orthogonal to each other, they represent a histographic insight into the underlying motivations of policy changes. The main distinctions with their sub-categories, described in more detail below, are summarized in the classification scheme in Table 4.1.

To begin with, we elaborate on those tax changes that, according to their underlying motivations, can be characterized as endogenous. First, all those policy changes that sought to mitigate or combat the effects of economic fluctuations through fiscal stimuli are comprised in this sub-category. Until the onset of the Nazi regime, these pre-Keynesian measures mainly included general or sector-specific tax reliefs on the supply side, such as the *Steuermilderungsgesetz* (Tax Mitigation Act) of 31 March 1926, which included both a general reduction in turnover tax and, for example, the abolition of the wine tax as sector-specific help as a result of an uprising by winegrowers in the Trier region (Blaich, 1985). These interventions, which were aimed at stimulating production, are referred to as supply stimulus (SS). They are complemented by demand management (DM) measures, which were intended to stimulate private consumption and investment. While in the 1920s these measures were used only sporadically, for example in 1927 to increase private demand for sugar, tax policy instruments were used by the National Socialists specifically in 1933 and 1934 to stimulate demand for

motor vehicles or investment in the construction sector, for example. While until 1932, following the orthodoxy of the time, mainly supply-side tax relief was the instrument preferred for a fiscal stimulus, it was precisely in the early phase of National Socialist rule in 1933/34 that private demand was addressed.

Second, following the budgetary orthodoxy until 1932, a policy of balancing the budget was pursued. This meant that when current economic conditions deteriorated and tax revenues were expected to fail to materialize, this motivated tax increases. The most salient examples of such procyclical policies, which served to avert budget deficits during an economic slump, are the tax increases of Brüning's emergency decrees between 1930 and 1932. These changes that are designed to deal with an impending or actual deficit, are in general termed deficit reduction (DR).

Third, some expenditure changes directly motivate tax changes to offset financing needs. An example is the motor vehicle tax, whose level and its surcharge were based on the maintenance needs of the road network. In addition to these taxes, whose revenue is earmarked for specific uses, this group also includes tax changes in a broader sense that generally serve to finance specific expenditures. An example of this are the multiple tax changes and new taxes introduced from 1935 onward to compensate increased budget expenditures for highway construction. This group of tax changes is classified as spending-driven (SD).

In distinction to the previous group, exogenous tax changes describe all those measures that do not respond directly to changes in the economic environment, but rather reflect political priorities or external liabilities. The first group of exogenous measures sought to maximise long-term economic growth by improving competitiveness, increasing productivity and achieving efficiency gains through tax legislation. This includes, in particular, measures that were designed to provide long-term support to individual firms or sectors or to protect them from competition. Finally, this group also includes all tax changes that served to simplify, standardise and harmonise the tax system. These aforementioned cases are referred to as long-run performance (LR) measures.

The second sub-category encompasses all those measures that followed social or ideological purposes. An example of social legislation is the introduction of unemployment insurance in 1927 to cushion social hardship in the event of

joblessness. The population policy of the National Socialists, in turn, was ideologically reflected in tax policy. Income tax placed an increased burden on single and childless people, while it privileged large families through benefits or withheld these benefits in a discriminatory manner for children of Jewish descent. These tax changes that were motivated by ideological goals are classified as ideological (IL).

Measures that serve long-term fiscal consolidation or the reduction of structural budget deficits are summarised in the following third sub-category. It represents all those measures that are an expression of sound budgetary policies and that serve the sustainability of the sovereign debt but do not respond directly to an emerging budgetary gap. Tax changes in this sub-category of long-run deficit consolidation (DC) measures rather reflect policy changes in dealing with inherited fiscal imbalances in terms of long-term and political considerations.

Finally, all those tax changes that are not the result of a sovereign political decision are included in a fourth group. Changes in the tax burden are classified as external (ET) if they arise from judicial decisions or foreign policy obligations. In particular, the reparations as a result of the Treaty of Versailles in their payment regimes are consequences of political payment obligations. Their raising through taxes, parafiscal charges and imposed bonds as in the minutest details regulated in the Dawes and Young Plans are examples of tax changes in this category.

### **4.3 A Narrative Tax Record of Interwar Germany**

After setting out the framework for identifying exogenous tax reforms, this section discusses the historical background and the narrative account derived from it. It then explains how the tax changes are aggregated into a time series and describes their properties. In order to estimate the multiplier effect directly, the resultant series of tax shocks can be used as an instrument for the estimation of tax revenue changes in the context of local projections. The necessary identifying assumptions are discussed before the predictability of the respective tax changes as an indicator of exogeneity is evaluated.



Table 4.1: Categories of tax changes

Group	Sub-category
<b>Endogenous (N)</b>	1. Countercyclical measures: stimulate demand (DM) and supply (SS)
	2. Urgent deficit reduction measures (DR)
	3. Spending-driven changes (SD)
<b>Exogenous (X)</b>	1. Long-run performance (LR)
	2. Social/ideological objectives (IL)
	3. Long-run deficit consolidation (DC)
	4. External (ET)

*Notes:* The classification scheme is based on the categorisations introduced by Cloyne (2012) and reproduced in Cloyne et al. (2018). The consistent application of the schemes conventionally used in the literature is necessary to reduce judgement calls and to provide scientific traceability of exogenously identified tax changes.

### 4.3.1 Narrative Evidence

In the following, we take a bird's eye view of economic development and fiscal policy between the Weimar Republic and National Socialist Germany. Identifying exogenous variations in tax reforms requires a careful balance between the individual motives for a single tax change, as revealed by a tax-by-tax analysis, and its embeddedness in a larger context of fiscal developments. While the accompanying Chapter 3 provides this detailed narrative record, including conflicting justifications, this section traces the general evolution in more detail. The extraordinary challenge in classifying measures is always to balance individual motivations at their face value against their framing in the prevailing fiscal policy. The resulting budget-by-budget classification is displayed in Table C.3, Appendix C.17 and discussed below.

**1925-1929**

The Dawes Plan, which regulated reparations to the victorious powers of the First World War, was signed in London on 16 August 1924. The settlement of reparations payments after the uncertainties of hyperinflation and the granting of loans and bonds boosted the economy. The Dawes Plan gave Germany certainty about the pensions it would have to pay, and as a result the currency and public finance were able to stabilise.

However, wages and the cost of living diverged, unemployment hardly fell, and the influx of foreign capital did not lead to a significant increase in production, so that reparations were paid not out of a trade surplus but out of foreign exchange flowing into Germany. On the other hand, overdue public investment, now financed by credit, had a stimulating effect on the economy, reducing unemployment, increasing industrial capacity utilisation and improving infrastructure (Krohn, 1974, p. 101).

Hans Luther succeeded Wilhelm Marx as Reich Chancellor in January 1925. He led two cabinets in this capacity until May 1926. Otto von Schlieben became the new Minister of Finance. As a co-founder of the Popitz-Schlieben financial reform, he was responsible in 1925 for the tax legislation that is considered the basis of our current tax system (Bachmann, 1996, p. 74). Much of the legislation that was finally passed on 10 August 1925 was intended “as a permanent solution to tax problems”, while a transitional law on income and corporation tax was “only of temporary significance” (AdRk, Die Kabinette Luther I/II, Bd. I, Dok. Nr. 7) and served to prepare for a new assessment and tariff structure. Tax, revaluation, fiscal equalisation and customs laws were additionally implemented. In his government statement of 19 January 1925, Luther had still referred to the need for exports and tax relief: “We must export German products more than before in order to increase our purchasing power and thus contribute to an increase in the world’s consumption of goods.” Furthermore, it was necessary to “abolish all unnecessary (...) and exploitative taxes” in order to relieve the “broad mass of consumers” (RT-Bd. 384, p. 94). However, the measures of the tax amendment of August 1925 relieved the economy in particular, while a large part of the population did not benefit from them and, moreover, was subjected to excise tax increases (Krohn, 1974, p. 188). Tariff changes and reintroductions (e.g. grain

and meat tariffs) made food more expensive, but the general reduction in turnover tax failed to reduce inflation, despite the Chancellor's hopes (BA R 43-I/2411, Blatt 152). While food prices recovered in the autumn of 1925, industrial products remained expensive and in low demand. High wages and interest rates on loans, combined with poor sales, led to a considerable wave of bankruptcies and rising unemployment. The economic downturn was regarded by the Reich government, the Reichsbank and the trade unions as a "cleansing crisis" (Hertz-Eichenrode, 1982, p. 22ff.) or as a "normal cyclical process" (Krohn, 1974, p. 195). Price-cutting policies by reducing turnover tax and public interest rates, combined with price-increasing customs legislation, failed to end the economic crisis. Much of the population reacted with incomprehension to these contradictory measures. It was not until January 1926 that Luther's second cabinet, with the new finance minister Reinhold, countered the crisis policy (Hertz-Eichenrode, 1982, p. 77ff.).

Luther's first budget for the financial year 1925-26, is classified as *exogenous (X)*, because of the existence of a number of motivations fostering *long-run economic performance (LR)*, in particular the law on the transfer of income and corporation tax and the great financial reform of August 1925. Overall, the framework and standards for a long-term tax system were set by Finance Minister von Schlieben and his State Secretary Popitz. At the same time, however, it was also a phase of consolidating and rebuilding a closed tax system in which surpluses were generated, albeit from sources that were eventually not permanently flowing (Bachmann, 1996, p. 95). Thus the measures could be regarded as *fiscal consolidation (FC)* and consequently be referred to as *exogenous (X)*.

Finance Minister von Schlieben had insisted on a balanced budget in order to comply with the Dawes Agreement and to maintain currency stability so as not to jeopardise foreign loans. A deficit was therefore out of the question.

On the other hand, the Reich Treasury had considerable surpluses, and the public demanded tax cuts. Finance Minister Reinhold responded to this demand. At the end of March 1926, the budget was passed on time for the first time, together with the promulgation of the so-called Tax Mitigation Act, which abolished the tax on wine and salt and reintroduced the tax on sparkling wine, but which focused on the reduction of the turnover tax and the abolition of the luxury tax. The tax reduction was to be financed from the budget surplus. With this

recourse to reserves, Reinhold's view of the principle of 'balancing the budget' diverged from that of his predecessor, although he too wanted to keep the currency stable and reduce taxes in order to relieve the economy, encourage investment and intensify productive interest (Baumgarten, 1965, pp. 63-66; Bachmann, 1996, p. 75; Hertz-Eichenrode, 1982, pp. 99ff., 211; Krohn, 1974, pp. 200ff.) The reduction of surpluses from previous years for the benefit of the economy and the simultaneous avoidance of future surpluses allowed Reinhold to pursue a financial policy "hard on the edge of deficit" (AdRk Marx III/IV, Bd. 1, Einleitung) The measures to reduce the tax burden in the spring of 1926 are to be regarded as *endogenous (N)*, since they are *supply-side stimuli (SS)* in response to an economic slowdown.

In addition to these tax reductions, additional expenditure was approved in the form of subsidies, unemployment benefits and emergency work (Baumgarten, 1965, p. 48 ff.; Bachmann, 1996, p. 79; Maurer, 1973, p. 15). Under Marx's cabinet, a job creation programme was added. The economy began to recover. However, the spending policy meant that the cash reserves were insufficient in the long term, and borrowing powers were used as a financing instrument for the extraordinary budget, but these could only be partially realised because the German capital market could not absorb them sufficiently (AdRk Marx III/IV, Bd. 1, Einleitung). Overall, looking at the economic policy of 1926/27, one can speak of deficit spending to a certain extent due to the rising expenditure in conjunction with tax cuts that were to be financed by loans; (Hertz-Eichenrode, 1982, p. 112; Baumgarten, 1965, pp. 67ff.; Bachmann, 1996, p. 80, 95).

In addition to these counter-cyclical measures, in the summer of 1926 a major tariff increase on grain and flour was introduced to protect domestic agriculture and for tactical reasons in relation to the forthcoming negotiations on a trade treaty with Poland. Because of its protectionist tendency, this measure can be classified as *exogenous (X)*, *ideological (IL)*.

On 16 February 1927, during a first consultation on the Reich budget for 1927, Reinhold's successor, Finance Minister Köhler, spoke of a "budget (...) in deep shadow. Previous surpluses have been used up". There was an "urgent need for a period of consolidation after the constant changes in tax law after the war and especially during the inflationary period". Consequently, Köhler did not

want any major changes in tax policy, as these would “cause a new disturbance in the economy”. On the other hand, he relied on “simplification of legislation and administrative procedures” and “expenditure restraint”. If the deficit could be covered, taxes would be cut. He was concerned about the Dawes Agreement with its increasing reparations obligations in the coming years, but nevertheless considered it a “national necessity” to increase the salaries of civil servants and war-affected persons promptly in view of the still increasing reparations expenditure in the future (RT-Bd. 392, p. 9006ff.). It had also long been argued that a budget deficit might be conducive to a revision of the Dawes Plan (Bachmann, 1996, p. 84).

In terms of taxation, the sugar tax was halved and the wage tax was reduced by 15 per cent. Both measures can be seen as an *endogenous (N)*, *demand stimulus (DM)*. Unemployment insurance was introduced in October 1927. As its revenue was only slightly higher than the previous unemployment benefits due to the previous introduction of uniform contributions, its impact was small. As the revenue was earmarked for the payment of unemployment transfers, it is classified as *endogenous (N)*, *spending driven (SD)*. Despite the tax cuts, the financial year 1927 was positive in terms of economic activity and tax revenues, as Köhler summarised in January 1928 (RT-Bd. 394, p. 12233). Fiscal policy continued to try to influence the economy through deficit spending (Bachmann, 1996, p. 95).

The financial year 1928 was marked by the balancing of the budget. In January, Reich Finance Minister Köhler said that a “budget of thrift” had been drawn up on the premise of “avoiding a deficit budget at all costs” (RT-Bd. 394, p. 12235). The beginning of the financial year saw a change of government. A grand coalition led by the SPD, with Chancellor Müller at the helm and Hilferding as finance minister, took over the reins of government. As early as March, Hilferding had criticised in the Reichstag the “deficit in the ordinary budget” and the “very large deficit (...) in the extraordinary budget” (RT-Bd. 395, p. 13842). In July he stressed the importance of a balanced budget for monetary stability (RT-Bd. 423, p. 102) and in a government statement on 3 July 1928, Chancellor Müller assumed “that taxes and administrative revenues will essentially reach the amounts set in the 1928 budget law”. However, since it could not be assumed that there would be an increase in revenue, “the most thrifty budgetary management is absolutely

necessary in order to avoid any threat to the balance of our finances, which must be ruled out under all circumstances". He was also particularly critical of "the amount of the extraordinary expenditure and the resulting need for borrowing", especially in view of reparation obligations (RT-Bd. 423, p. 46).

There were no significant changes in taxes in 1928. Despite falling tax revenues, the wage tax was reduced again. Since, in the tradition of the Lex Brüning, the tax cuts were each linked to a variable revenue threshold, they are to be classified as *endogenous (N)*, although they were intended to relieve lower income groups. The revaluation of assets, on the other hand, was expected to generate additional revenue. Since the clear objective was to balance the budget, the measures are nevertheless classified as *endogenous (N)*, *deficit reduction (DR)*. As a result of the slowing economy, falling tax revenues, the need for unemployment insurance to borrow money to fund rising benefits, the previous year's expenditure, and increased reparations payments under the Dawes Plan, the budget was not balanced but showed a large deficit. Work on a revision of the Dawes Plan now seemed inevitable.

Hilferding's approach to the 1929 budget was also based on the premise of "balancing the budget". In March, the financial overview of the 1929 budget listed the new problems that had arisen in the preparation of the budget compared to previous years: no surpluses, no working capital funds and no more seigniorage. Due to the economic downturn, tax revenues were expected to fall and social expenditure was expected to rise, while the burden of reparations was expected to increase. The financial year 1929 was described as an "emergency year" requiring "the most drastic measures". There were two reasons why a budget deficit was unacceptable. On the one hand, a deficit would have an impact on creditworthiness: in a tight liquidity situation, loans were urgently needed and the German economy also depended on them. On the other hand, it was feared that, once abandoned, the path of balance between revenue and expenditure would spread like "a sore infecting all the organs of the national economic body". The imperative of balancing the budget was valid, even if it required sacrifices, since on the revenue side it "hit the heavily burdened economy by increasing taxes" and on the expenditure side "economic, cultural and social interests would be sensitively affected" if the Reich, the states and the municipalities had to make or accept cuts

(RT-Bd. 434, Drucks. 885, p. 17f.). In order to eliminate the deficit, expenditure was cut, the distribution of taxes between the Reich and the states was changed and taxes were increased.

The deficit, which had previously been hidden in supplementary budgets, came to light and the attempt to balance it with savings from the Young Plan and tax revenues was thwarted as economic activity slowed and expected tax revenues failed to materialise. At the same time, Hilferding wanted to cut taxes to stimulate the economy, which for him took precedence over fiscal consolidation. By the end of 1929, the Reich had lost its creditworthiness at home and abroad as a result of its failed fiscal policy. Hilferding was succeeded as Reich Finance Minister in December 1929 by Moldenhauer, who set other priorities in fiscal policy, namely firstly to cover the budget and secondly to provide tax relief (Bachmann, 1996, pp. 192f.; Maurer, 1973, pp. 106f.).

Most of the tax legislation enacted in 1929 was aimed at reducing the budget deficit. For example, a Reich bond was issued, allowing potential investors to subscribe to tax-exempt (except for corporation tax) securities up to a total amount of 500 million RM. The proceeds were intended to improve the Reich's problematic liquidity situation, in particular the "indebtedness of the extraordinary budget to the ordinary budget" (BA Nachlass Pünder N 1005/120, p. 77; quoted from Bachmann, 1996, p. 133). Unfortunately, the issue was much less successful than hoped. With the intention of reducing the deficit, the surcharge on the wealth tax, the increase in the tax on spirits and tobacco, and the increase in the duties on coffee and tea were also implemented. Since the deficit in the Reich budget, especially in the extraordinary budget, was largely due to transfers to the unemployment insurance (UI), two laws on unemployment insurance were also enacted in the last quarter of 1929. One extended the group of contributors and the other increased the contribution rate, both measures designed to reduce the subsidy from the Reich budget to the UI and thus to reduce the deficit. The 1929 budget is therefore classified as *endogenous (N)*, *deficit reduction (DR)*.

### 1930-1932

As Chancellor of the Reich in a highly controversial Grand Coalition, the Social Democrat Hermann Müller was faced with the difficult task of taking measures

to “rehabilitate German finances” and “relieve the cash situation”. The economy had been severely weakened by the stock market crash in the US in October 1929, which had spread to the rest of the world. Unemployment had risen massively, and tax revenues and loans had failed to materialise. Particularly in unemployment insurance, a budget gap had opened up. On 12 December 1930, Müller presented the government’s “overall financial programme” to the Reichstag, which was intended to rectify this deficit. He called for a “strengthening of unemployment insurance revenues and a comprehensive tax programme” (RT-Bd. 426, p. 3537). No agreement was reached within the coalition on the financing of unemployment insurance, which led to the break-up of the coalition in March 1930. The fiscal measures taken were an endogenous response to the deteriorating economic conditions and were aimed at reducing the deficit. The financial relief in the form of reparations brought about by the Young Plan, which could have facilitated the implementation of a financial reform, was wiped out by the Great Depression (Maurer, 1973, p. 94).

While Reich Finance Minister Hilferding, who had already resigned in December 1929, had also envisaged tax cuts to stimulate the economy, his successor, Moldenhauer (DVP), spoke of “tax shifts” in the discussions on the 1930 budget in May 1930, “in order to create a stable and secure basis for the final implementation of the tax reduction programme”. An “increase in certain excise duties” (e.g. sales and tobacco taxes, customs duties) would have provided the basis for this, once the 1930 budget had been financed and the programme for financing had been approved by the Reichstag. This programme provided for a balanced budget and the repayment of “outstanding debts” (RT-Bd. 427, p. 5015). Reich Chancellor Brüning (Zentrum), who had taken over the reins of government with his cabinet on 30 March 1930, continued this policy of budgetary consolidation. “If the financial and liquidity situation is not put in order quickly, there is no guarantee of the urgently needed relief of the economy and the alleviation of unemployment”, he said in his government declaration when he took office on 1 April 1930 (RT-Bd. 427, p. 4729). If the dispute over the form of unemployment insurance had led to the downfall of the Müller government, a provisional compromise solution had now been found on this point, including the provision for savings of 600 million RM in the ordinary budget for 1931 in order to reduce direct taxes. No



agreement could be reached between the parties on the proposals for covering the 1930 budget, so the first attempt to implement them by emergency decree failed. After Finance Minister Moldenhauer was forced to resign by his DVP in June 1930, he was replaced by Dietrich. The Reichstag was dissolved, and on 26 July 1930 the law was reinstated by emergency decree of the Reich President, i.e. by suspending parliament. Following the Reichstag elections of 14 September 1930, the poor performance of Brüning, who was unable to form a majority government, led to a change from parliamentary democracy to a presidential cabinet.

In his government statement of September 1930, Brüning had presented the new Reichstag with an “economic and financial plan of the Reich government”, which had arisen “out of the necessity of the time”. The facts that had to be faced were “the still growing number of unemployed and the persistent and continuing decline in tax revenues”. It was therefore necessary to “prepare an orderly and balanced budget for the coming year”. The way to achieve this should lead to a “relief of the productive classes”, “a comprehensive simplification - above all of the tax system”, “not higher taxes, but only austerity measures”, and, finally, to the “restoration of confidence” (BA R 43-I/1446, Bl. 335-336). Four major emergency decrees to implement a strict deflationary course followed within a year of December 1930. They were designed to limit expenditure, cut wages, lower prices and interest rates, restrict social spending and increase indirect taxes. In this way Brüning tried to deal with the consequences of the Great Depression of 1929 and the banking and credit crisis of the summer of 1931, accompanied by persistently high unemployment.

By lowering domestic prices, Brüning aimed to stimulate exports in order to become independent of foreign loans and instead to be able to cover the reparations payments for 1931 from the trade surplus. At the same time, he sought a revision of the Young Plan (Maurer, 1973). Brüning’s policy of austerity and deflation did not succeed in making the country competitive on the world market in order to boost exports. He also failed to eliminate the budget deficit during his term of office, and it was his successor, Franz von Papen, who succeeded in resolving the reparations issue, i.e. the payment obligations from the Young Plan, which were cancelled in July 1932.

The classification of Brüning's deflationary and austerity policies requires a differentiated examination of the rich qualitative evidence. Until 1979, the basic consensus, shaped by a Keynesian perspective, was that Brüning's attempts to stabilise the economy of the Weimar Republic by means of deflation and budget consolidation had an aggravating effect on the crisis and that a stabilisation of aggregate demand at the expense of the public budget, even at the cost of inflation, would have been more appropriate (Kroll, 1958; Conze, 1967; Kindleberger, 1973; Mommsen et al., 1974). This view was challenged by Borchardt (1979), who pointed out that the lack of access to the capital market and thus the possibility of deficit spending in the Great Depression blocked the expansion of debt. Brüning's policy course was thus rather characterised by constraints arising from a public debt problem. Before turning to the so-called Borchardt debate, sparked by Borchardt's seminal contribution on Heinrich Brüning's constraints and room for manoeuvre, and its implications for the classification of the chosen measures, we will briefly discuss the differences in the austerity literature in terms of classification schemes relative to the classical tax literature.

Both strands of the literature invoke the identification of exogenous variation through narrative identification based on underlying motivations, as introduced by Romer and Romer (2010). In the Devries et al. (2011, pp. 4-5) panel data set of 17 OECD countries covering the years between 1978 and 2009, two primary exogenous motivations for fiscal retrenchment are distinguished, which are not supposed to be a response to future economic developments: "a desire to reduce the budget deficit to shore up government financial sustainability; and a desire to restrain domestic demand for cyclical reasons". The dataset based on the aforementioned in Alesina et al. (2019a) extends this sample to 2014 and makes partial reclassifications. They describe their criteria as follows, with measures related to short-term fluctuations assumed to be endogenous:

- "(i) They are geared towards reducing the budget deficit
- (ii) They are politically motivated with reasons that are independent from the state of the business cycle.
- (iii) they are prompted by a long-run economic trend, e.g. reducing the sustainability gap of public finances induced by population", (Alesina et al., 2019a, Online Dataset).

Bearing in mind that in both the narrative tax and the austerity literature the exogeneity of deficit reduction measures is justified either by political, ideological motives or by the sustainability of public finances, we turn to the lines of argument in the Borchardt controversy that are relevant for the classification. In contrast, both strands treat measures that respond to short-term economic developments as endogenous.

With regard to Brüning's austerity measures, two lines of reasoning form possible motivations for the measures taken. The first is that Brüning's policy was to deliberately obstruct German reparations. In doing so, the Chancellor was ruthlessly deflationary in order to exacerbate the crisis and demonstrate the unsustainability of the political obligations imposed by the Allies. By freeing Germany from the shackles of reparations policy, Brüning wanted to turn the tide, devalue the currency to strengthen international competitiveness and let Germany participate in an international upswing (e.g. Holtfrerich, 1982, 1996; Büttner, 1989). The perception that Brüning chose the deflationary path willingly and in the presence of alternatives shifts the focus of the underlying motivation to foreign policy and reparations. These political considerations can be seen as *exogenous* ( $X$ ).

Authors adopting Borchardt's perspective point out that the Reich Chancellor's room for manoeuvre was severely limited. The Young Plan tightened the conditions for the payment of reparations, and the inflow of capital dried up under the Reparations Commissioner's criticism of excessive spending. In addition to reparations, the high foreign debt accumulated during the Dawes Plan years had to be serviced from trade surpluses from 1929 onwards. This necessity made it impossible, under the constraints of reparations, to pursue alternative ways of fighting the crisis through expansionary monetary or fiscal policies. Given the intention to reintegrate the German economy into the world economy, a policy of austerity was therefore the only way to meet the burden of the Young Annuities and to service the foreign debt contracted in the 1920s. In the long run, the plan served to restore access to the capital market and thus Germany's solvency (Borchardt, 1979; James, 1985, 1986; Ritschl, 2002b). The above reasoning provides support for an *exogenous* ( $x$ ) classification, as the measures were intended to demonstrate fiscal soundness to international investors, regardless of the current

economic situation and in contrast to the policies pursued before the hyperinflation.

Nevertheless, the sovereign debt problem described can also justify an *endogenous* (*N*) classification. Ritschl (2002b, pp. 239-240) describes how the inflow of foreign loans in the second half of the 1920s led to a positive economic development, but burdened the future balance of payments. In the absence of further foreign loans, Germany slipped into a balance of payments crisis in the course of 1930. As a result of the need for balance of payments surpluses in order to meet its foreign obligations, new emergency decrees were issued in the course of the crisis in order to eliminate the budget deficit. Brüning's austerity measures should not be interpreted as a single multi-year plan, but rather as a series of measures born of current necessities in response to short-term economic and political developments, while following a deflationary and austerity course. The case of a balance of payments crisis is treated analogously in the fiscal literature by Cloyne (2012, 2013) as urgent deficit reduction (DR), endogenous (*N*).

In the following sections, we treat the fiscal austerity of the Brüning years as endogenous and exclude it from our exogenous narrative series of tax shocks. The Granger causality tests commonly used in the tax literature confirm this classification, as we show in the next section. Nevertheless, the qualitative evidence for the unique circumstances of the German interwar period is strong. It also supports the claim that the 1930-1932 austerity measures were exogenous, even though the predictability tests suggest otherwise. In the remainder of the paper, we will also use an alternative series in addition to the baseline that includes the austerity shocks, since more than 40 years of debate about the constraints and room for manoeuvre of Brüning's policy cannot be easily overturned.

### **1933-1934**

In the late summer of 1932, Franz von Papen's first fiscal policy response to the prolonged crisis began to provide large-scale relief to the labour market and to stimulate the economy. As Brüning's successor, he focused on stimulating the economy rather than on deflationary policies. On 4 September 1932, a system of tax vouchers was announced as a rebate on certain types of taxes, and companies were also given tax vouchers as a bonus for increasing employment. The aim of

the programme was to reduce the cost of production for companies, thus reducing their burden, with the effect of increasing production and creating jobs, which in turn would stimulate demand (Marcon, 1974, p. 212). The volume of tax vouchers was budgeted at around 1.5 billion RM for tax payments and 700 million RM for additional employment, each of which could be redeemed annually for one fifth of the nominal value for the payment of Reich taxes over a period of five years from 1 April 1933. As a supply-side relief, the measure is classified as *endogenous (N)*, *supply stimulus (SS)*.

The Great Depression had a lasting impact, and the resulting unemployment in Germany - some 6 million people were unemployed when power passed to Hitler on 30 January 1933 - made everyday life difficult for people. With the crisis, the national income, the industrial production and the investments had been shrinking. The loss of the First World War and the subsequent reparations were still fresh in people's minds. The National Socialists were able to exploit the depressed mood of the people by holding out the prospect of overcoming the economic and employment problems (Schauer, 2003, p. 30ff.). The Reich Finance Ministry was headed by Schwerin von Krosig, who from April was assisted by State Secretary Fritz Reinhardt.

When they came to power, the Nazis did not have a specific tax programme, but adopted some points from their Weimar Republic predecessors. However, Hitler announced that he would gradually reform the tax system, in particular by simplifying administration. Reinhardt went on to exert considerable influence on tax policy (Högemann, 1993, pp. 16ff., 70f.; Voss, 1995, p. 104). Until 1934, the first tax changes under the National Socialist regime were mainly in support of public work creation measures and are therefore classified as *endogenous (N)*, even if they differ in their specific objectives.

One of the first tax measures introduced was the exemption from motor vehicle tax for cars and motorcycles registered after 31 March 1933, which was intended to increase car sales and reduce unemployment. Accordingly, I have classified it as *demand management (DM)*, while the tax exemption for old cars in return for a one-off payment has been classified as *spending-driven (SD)*, since the redemption sum was to be used for road construction and thus also to reduce unemployment figures.

In the case of the first Reinhard programme of 1 June 1933 and the second of 21 September, the title already reveals the intention: “Law for the Reduction of Unemployment”, consisting of several individual measures, most of which were classified as *demand management (DM)*, since they were intended to stimulate the economy and thus improve the labour market situation and stimulate demand, or *spending-driven (SD)*, such as the “voluntary donation for the promotion of national labour”. Also in the *spending-driven (SD)* category is the introduction of a compensatory levy on fats, which was intended to benefit the needy by making these products cheaper, and the increase in the tax on race betting to provide funds to support horse breeding, which were adopted outside the Reinhard programme.

Several other minor tax changes followed during the financial year. The new regulation of the department store and branch tax was expected to generate additional tax revenue due to its *endogenous (N)* and *supply-side (SS)* character, while the abolition of the mineral water tax and the sparkling wine tax was expected to reduce the tax burden in order to stimulate the production and sale of sparkling wine. *Demand management (DM)* was pursued with the law amending unemployment benefits and the circular on civil air protection.

The minutes of a meeting of the Reich Ministry on 19 September also refer to the labour market situation and the implications for fiscal policy: “The Chancellor emphasised that it was important to get through the winter and keep the number of people in work at the present level. All measures should therefore be seen primarily from the point of view of job creation. (...) Every measure in the field of fiscal policy must also primarily serve the goal of job creation.” (BA R 43-II/787, p. 139f.). Shortly before, Finance Minister von Krosigk had already reported on the “decline in unemployment”, attributing it to “the political events of 30 January and 21/22 March 1933” and “the measures taken so far”, of which he particularly emphasised some of the above-mentioned laws (BA R 43-II/787, p. 117f.). At the same time, however, the goal of eliminating unemployment was already linked to National Socialist ideology in its implementation, as expressed, for example, in the tax laws on marriage loans, which were financed by levies on unmarried persons, or the exclusion of female workers from the regular labour market in order to avoid double-income households.

In 1933 and the first half of 1934, expenditure on job creation far exceeded tax receipts. The funds for job creation were intended to stimulate the economy, but also to consolidate power and enable rearmament (Banken, 2018, p. 266ff.). During this period Hitler succeeded in combating unemployment and in imbuing the population with National Socialist attitudes, also with regard to tax law (Schauer, 2003, p. 80).

Fritz Reinhardt formulated the most important “principles of National Socialist tax policy” in the course of an extensive tax reform in autumn 1934: “I. Granting of tax concessions”, “II. + General reduction or abolition of taxes” under certain conditions, “III. Restructuring of Taxes according to Population Policy Principles”, “IV. Restructuring of taxes for the purpose of emphasising the value of the individual and personal responsibility in the economy”, whereby according to point III, families with many children should be relieved by shifting taxes, if necessary, to single people and “Volksgenossen” with few children, and point IV means the promotion of partnerships over corporations (RStBl. 1934, p. 308f.).

The tax reform of 16 October 1934 contained the most far-reaching changes in tax law under Nazi rule. It reduced the turnover tax on domestic trade, amended the inheritance tax law by introducing tax-free allowances for children and grandchildren, exempted short-lived assets from valuation for income tax purposes and, as described above under Principle III, placed a heavier burden on childless families and families with one or two children than on families with several children. Marital status was also to be considered in the assessment of wealth tax. Taxes on capital transactions were changed, in particular the capital tax mentioned above under IV, but also the securities and stock exchange transactions tax, a revaluation of land was carried out, which led to an increase in land tax, and the citizens’ tax was reformed. The entire package of measures is to be classified as *exogenous (X)*, *ideological (IL)*, since the tax law was adapted to the National Socialist ideology, which was expressed in the Tax Adaptation Act (RGBl. 1934 I, p. 925) passed simultaneously. It provided the legal basis for civil servants to interpret all tax legislation in the spirit of the Nazi ideology.

On the whole, Reinhardt’s tax amendment of 16 October did not bring about any sweeping tax reductions, but rather redistributions in line with Nazi ideology.

The intended tax simplifications were only partially implemented (Schauer, 2003, p. 103).

### 1935-1939

From 1935, there were initially few formal tax increases in the form of higher rates or a broadening of the tax base, but the collection of existing taxes was tightened. The tax authorities increased the scrutiny of potential taxpayers by introducing controls in addition to the obligation to declare, by collecting taxes under threat of sanctions, and by exposing tax evaders.

In addition, businessmen were required to keep a book of goods received, which was also intended to increase tax revenue and brought in a considerable amount of additional revenue in the 1935 financial year. In addition to this measure, changes were made to the citizen's tax to provide relief for those on low incomes, and to the lubricant and gas oil duties earmarked for highway construction, all of which can be considered *endogenous (N)* and *spending-driven (SD)*. On the other hand, the change in the monopoly tax on spirits in September 1935 was intended to improve the liquidity situation, as was the reorganisation of the monopoly on ignition goods in January 1936, which promised additional annual revenue over a long period. Both are *endogenous (N)* and aimed at *deficit reduction (DR)*.

Meanwhile, arms spending had been rising steadily since 1933, financed by Mefo bills issued by Reichsbank President Schacht. In May 1935, he failed to get this type of financing restructured at the expense of financing through the Reich budget. Only in 1937, under threat of resignation, did he succeed. Expenditure continued to rise, blowing a hole in the Reich budget, partly because Hitler did not want to cut back on armaments and his favourite projects of building motorways and prestigious cities. Finance Minister Schwerin von Krosigk had also called for cuts in the 1935 budget to prevent the budget deficit from growing further, but to no avail (Banken, 2018, pp. 108 ff.).

As expenditure on the construction of the autobahn and, above all, on armaments soared and tax revenues could not cover current armament costs, several tax increases were introduced in the 1936 budget, of which the gradual increase in corporation tax was the most effective in terms of revenue. The *exogenous (X)* measure served the purpose of a temporary *deficit consolidation (DC)*.



Also worth mentioning in the tax legislation of 1936 are changes in transport tax, changes in customs duties and an increase in mineral oil tax, all *endogenous (N)* and *spending-driven (SD)* measures for the construction of the Reichsautobahn.

In October 1936, Four-Year Plan was enacted (RGBl. 1936 I, p. 887). The demands made by Hitler were: “The German army must be ready for action in four years” and “The German economy must be ready for war in four years” (Michalka, 1993, p. 112; Treue, 1955). Hermann Göring was given the powers of a plenipotentiary general to implement the Four-Year Plan, especially rearmament.

The tight financial situation was not helped by the now reckless rearmament policy. Mefo funding was reaching its limits and expenditure requirements were far outstripping revenues. As a result, balancing the budget was out of reach. Rising expenditure required tax increases, and rearmament had to be financed additionally by bonds and treasury bills (Banken, 2018, p. 118ff.). Krosigk commented in October 1937 that “the present borrowing for services is only a stopgap measure, for despite the improvement in the budget situation, normal expenditure is naturally insufficient to finance the catch-up of a rearmament neglected for a decade and a half” (von Krosigk, 1938, p. 47).

In 1937, the military tax was introduced for men who could not fulfil their two years of compulsory military service and therefore had an occupational advantage over conscripts. This can be classified as *exogenous (X)* and *ideological (IL)*. The changes in the citizen’s tax, the Reichsfluchtsteuer and the new introduction of a tax on itinerant trades are classified as *endogenous (N)* and *spending-driven (SD)*. However, in the same fiscal year, on 1 February 1938, the income tax was changed in several *demand-managing (DM)* measures, *endogenous (N)*. The abolition of the exemption for the valuation of short-lived assets, which dated back to the early employment creation programmes, was intended to discourage excessive investment. This was associated with additional tax revenue, while the relief for certain income groups resulted in a small reduction in tax revenue.

In the 1938 financial year, in the context of the continuing rapid increase in the demand for funds, corporation tax was again raised sharply, which State Secretary Fritz Reinhard in the Ministry of Finance justified with the “extraordinary financial need” (BA R 43-II-II, p. 97). It was thus an *exogenous (X)* measure for

temporary *deficit consolidation (DC)*. The imposition of a Jewish property tax in November was intended to expropriate Jews of German nationality and is therefore an *ideologically (IL)* motivated *exogenous (X)* measure. This was followed by a series of *endogenous (N)*, *spending-driven (SD)* measures up to the end of the fiscal year in March 1939, such as the introduction of a fire protection tax, the adjustment of tax rates on sweeteners, an amendment to the income tax in February which, among other changes, abolished the domestic servant privilege and the deductibility of church tax, the minimum lump sum for special expenses and income-related expenses, the division of tax brackets with regard to single persons and Jews, and the levy on supervisory board members.

In March 1939, in view of the continuing budgetary imbalance, a new financial plan was announced. Tax vouchers, issued by the German Reich in lieu of treasury bills, were to be used to pay 40 per cent of the bills addressed to it, and the remainder could be used by the recipient to pay Reich taxes. In order to compensate for the shortfall in Reich tax revenue caused by the redemption of the tax vouchers, an additional income tax was levied, i.e. the income of individuals and corporations had to be taxed additionally on the excess income earned in 1939 compared to the period between 1938 and 1937. These measures were of a temporary nature and were taken in view of the budgetary situation (BA R 43-II/789a, Blatt 155). The issuance of tax vouchers was thus *spending-driven (SD)*, *endogenous (N)*, whereby the “compensation for the loss of revenue (...) resulting from the payment by tax vouchers” (RGBl. 1939 I, p. 562) was to be compensated for, among other sources, by the additional income tax.

### 4.3.2 Aggregation of tax shocks

Our narrative dataset covers the period from the first quarter of 1925 to the first quarter of 1939 and includes a total of almost 200 tax changes. To use them within an econometric time series model, we transform them into a quarterly tax shocks series. For this purpose, the previously identified implied projected revenue changes of the policy alterations, differentiated according to their motivation, are aggregated on a quarterly basis according to their implementation date and scaled

according to GDP. The result is a series of tax shocks in percentage terms, which can be read as shifts in the average tax rate.

The estimated annual change in revenue is used for this purpose. It reflects the expected change in tax revenue over a full year following a tax change. In most cases, this figure is given as it appears in the available sources. Where this is not the case, the expected revenue effect is converted to a full year figure. This is discussed in the accompanying narrative record for the relevant cases. Once the tax changes have been categorised, the projected revenue changes are aggregated into tax series based on the underlying motivations and the timing of their implementation. Following the convention established in the literature by Romer and Romer (2010), Cloyne (2013) or Cloyne et al. (2018), changes in the latter half of a quarter are already attributed to the subsequent quarter. The intuition is that these policy changes only have a delayed impact in the next quarter. The series derived from this aggregation by motivation are the expected changes in annual tax receipts as a result of the policy changes that occurred in the quarter. These are normalised by the annualised nominal GDP in the quarter. The result is a quarterly series of the expected change in the ratio of taxes to GDP due to a policy change.

In addition to the date of implementation, the announcement is also recorded as well for certain reasons. The announcement date is the actual day on which the legislation is promulgated in the official journal, while the text of the legislation announces the entry into force of an amendment. Although some amendments may be speculated about in advance, or drafts may be leaked or even inferred from election campaigns, the final version is not known until after parliamentary or ministerial consultations. They are published in the *Reichsgesetzblatt* within a few days of their adoption. If a law is to be implemented in several stages, a distinction is made according to the expected change in the tax liabilities of the respective parts and the time of implementation.

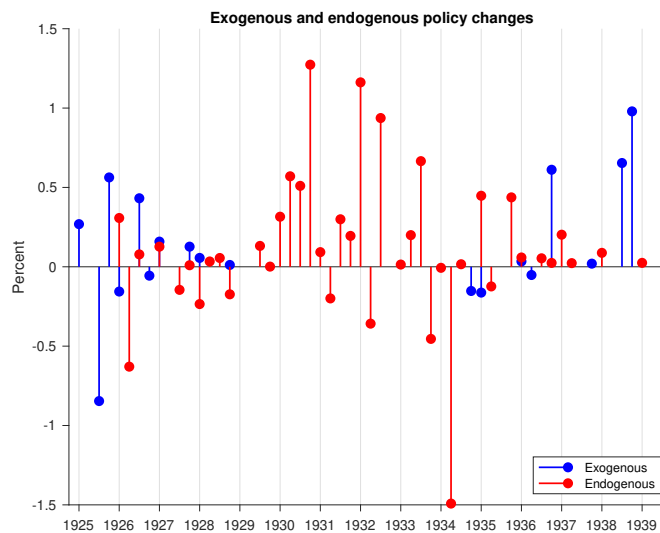
The implementation of a tax can be either retrospective or prospective. Figure C.23 in Appendix C.18 gives a histogram of the proportion of both, broken down by value and number. Our identification strategy is affected in both cases. A retrospective tax change consists of two changes in tax liabilities. On the one hand, there is the permanent change in the tax charge and, on the other hand, there is the

retroactive component, which has to be offset once. As no estimates are available for the retroactive component, we abstract from it and use the announcement date as the date when all future tax liabilities have changed, rather than the implementation date. As a check on the robustness of our results, we exclude all retrospective tax changes as part of a control exercise.

### 4.3.3 A time series of tax shocks

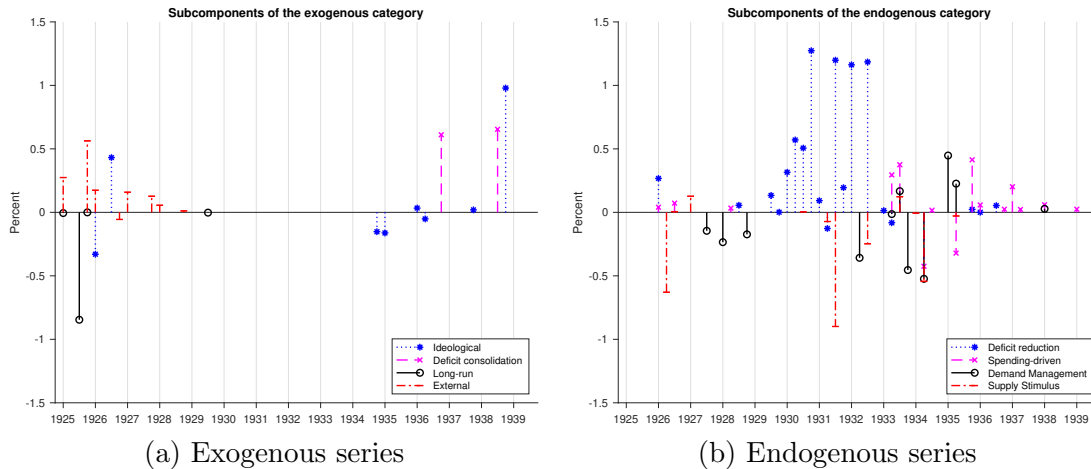
Having identified and categorised the tax changes, it is now possible to match them to the respective quarters, to aggregate them and to normalise them to nominal GDP. The generated series for exogenous and endogenous tax reforms are visualised in Figure 4.1. A more detailed presentation of each category is given in Figure 4.2 below. Panel 4.2a breaks down exogenous changes into ideologically motivated, long-term growth-enhancing, deficit-reducing and externally imposed. Panel 4.2b, on the other hand, decomposes the endogenous series into supply-side stimulus and demand-side management measures, as well as urgent fiscal deficit reduction and spending induced measures.

Figure 4.1: Narrative tax shock series



*Notes:* The time series are derived projected revenue estimates following a tax reform recollected in the companion Chapter 3 and scaled by nominal GDP. An overview of the time series generated can be found in Table C.4 in Appendix C.18.

Figure 4.2: Narrative tax shock series divided by subclassifications



*Notes:* In this figure, panel (a) breaks down the exogenous tax time series and panel (b) the endogenous tax time series, each according to their underlying motivations. The time series are derived from projected revenue estimates following a tax reform recalled in the companion Chapter 3 and scaled by nominal GDP. An overview of the time series generated can be found in Table C.4 in Appendix C.18.

The considerable tax changes over the period under consideration are reflected in Figures 4.1 and 4.2. The variation shown gives rise to the argument that the German interwar period is suitable for carrying out the proposed analysis. The tax reforms of the narrative record described in the necessary brevity in Section 4.3.1 are clearly evident at numerous points.

The first half of the 1920s in particular is characterised by the adjustment of the tax system to normal conditions after the years of hyperinflation. The blue arrow pointing downwards in the late summer of 1925 in Figure 4.1 represents this exogenous Popitz-Schlieben fiscal reform aimed at restoring the tax system. The opposite increases, in turn, result from the payment schedule of the externally imposed Dawes annuities and their allocation to the taxpayer. Similarly, the endogenous tax cuts implemented by Luther's Cabinet to stimulate the economy, production and demand in response to the economic crisis that began in the autumn of 1925, can be clearly seen in the red downward arrow at the beginning of 1926. The onset of the Great Depression at the end of 1929 already led to a deterioration in public finances and an urgent need for deficit reduction. The measures

taken to achieve this culminated in particular in the substantial endogenous tax increases imposed by emergency decrees between 1930 and 1932 by Reich Chancellor Brüning. With the transfer of power to Hitler and the National Socialists, the employment programmes of the early 1930s were accompanied by a series of tax cuts, some of them temporary. This phase of endogenous tax changes was brought to an end by Fritz Reinhardt's tax reform. In August 1934, a series of exogenous tax changes gradually subordinated tax law to Nazi ideology. At the end of the 1930s, a number of tax changes were introduced to support the ideological goal of armament by increasing corporation tax. In the second half of 1938, the climax of the fiscal persecution of the Jews is marked by a blue arrow pointing upwards. Apart from these major tax reforms, there are many smaller reforms and reversals caused by temporary tax changes expiring, which are discussed in detail in the accompanying paper.

#### 4.3.4 Identifying assumptions

As the constructed time series rests on projections of revenue changes, it is expected to be correlated with the true unobserved shock but by assumption of narratively identified exogeneity, uncorrelated with other variables. The narrative tax changes are thus not the shock itself, but an external instrument for the shock. In the context of a local projection instrument variable (LP-IV) strategy, we can employ this external instrument, following Ramey and Zubairy (2018), to estimate the multiplier directly. With reference to the assumption 4.1a below, this requires, first, that the exogenous tax series as instrument  $z_t$  is conditional on a vector of control variables  $X_{t-1}$ , correlated with, and thus relevant to, the change in GDP-normalised tax revenue  $\frac{T_{t+j}-T_{t-1}}{Y_{t-1}}$ . Second, it assumes that the constructed time series is exogenous according to the assumption 4.1b, i.e. it is not correlated with simultaneous changes in macroeconomic variables and therefore contemporaneously exogenous, but also not correlated with all future and past information in the error term  $u_{t+h}$  and therefore exhibits lead-lag exogeneity (Stock and Watson, 2018). This assumption is often relaxed in the tax multiplier literature by assuming that the shocks do not respond to current or future eco-

conomic developments. This weak exogeneity is acceptable since we can control for past economic developments.

$$E \left[ z_t \left( \frac{T_{t+j} - T_{t-1}}{Y_{t-1}} \right) \mid X_{t-1} \right] \neq 0 \quad (\text{Relevance}) \quad (4.1a)$$

$$E [z_t u_{t+h} \mid X_{t-1}] = 0 \quad (\text{Exogeneity}) \quad (4.1b)$$

While the strength of the instrument under assumption 4.1a is addressed in particular in figure C.14, the exogeneity in assumption 4.1b can be partially tested. It is not possible to test whether the narrative series are contemporaneous or lead exogenous, but it is possible to test whether our instrument  $z_t$  is unpredictable based on the lags of other macroeconomic variables. If the instrument  $z_t$  is predictable, it is correlated with the error term  $u_{t+h}$ , so the assumption of lag exogeneity fails and the LP-IV becomes invalid. A corresponding test for the predictability of the narrative series is carried out in the following Section 4.3.5.

### 4.3.5 Predictability of the tax changes

Since the exogenous changes have been identified through a qualitative analysis of policy motives based on predetermined criteria, they are *qua definitionem* exogenous in the sense of assumption 4.1b. While we cannot test the integral identification assumption by checking whether the exogenous tax changes are contemporaneously uncorrelated with other economic time series, we can test the predictability of the constructed series based on past information using Granger causality tests. The reliability of our defined narrative classification scheme is tested by this quantitative test. Following Romer and Romer (2010) and Cloyne (2013), we perform bivariate VAR Granger causality tests using GDP, unemployment, the Reichsbank discount rate, consumer prices and government expenditure to test for predictability. Table 4.2 shows the test results for both the endogenous and exogenous tax series tested against the defined set of variables, both in terms of levels and differences. The null hypothesis is that the lags of the respective variables do not condition the tax shocks. The exogenous series should not become more forecastable on the basis of past information from other variables.

Thus, high p-values should indicate that the hypothesis is not rejected. For the endogenous series, on the other hand, the tests should be associated with very low p-values, indicating that the null is rejected implying that this series can be predicted from past movements in other variables.

The test results confirm the expected properties. The exogenous series is not predictable on the basis of past information, supporting the argument that our narrative tax shock series does genuinely satisfy the exogeneity assumption.

Table 4.2: Granger causality tests

	Level		Difference	
	Test statistic	p-value	Test statistic	p-value
<i>Exogenous series</i>				
GDP	2.03	0.11	0.34	0.85
Unemployment	0.95	0.44	0.05	1.00
Reichsbank discount rate	0.24	0.91	0.01	1.00
Consumer prices	0.32	0.87	0.18	0.95
Government spending	5.14	0.00	2.96	0.03
<i>Endogenous series</i>				
GDP	2.40	0.06	2.23	0.08
Unemployment	2.85	0.03	2.17	0.09
Reichsbank discount rate	1.25	0.30	2.24	0.08
Consumer prices	4.00	0.01	4.27	0.01
Government spending	0.48	0.75	0.49	0.74

Note: In order to test the predictability of the two generated tax shock series, bivariate VAR Granger causality tests are carried out with the time series of interest. Since the local projections are in difference specification by nature, and the tax shocks are also to be interpreted as differences, the tests are run with the variables in both levels and differences. For the second column these are, row by row in levels, GDP, the unemployment rate, the discount rate of the Reichsbank, prices and government expenditure. For the third column, the differences are GDP growth, change in the unemployment rate, change in the Reichsbank discount rate, inflation and growth in government expenditure. The tests are run with 4 lags, while varying the lag lengths yields similar results. The null hypothesis is that the lags of the respective variable do not condition the respective tax series. A rejection, indicated by a low p-value, implies that the tax series is predictable by the respective variable.



At this point it is necessary to return to the treatment of the measures comprising Heinrich Brüning's austerity and deflation policy. While in the previous paragraphs we assumed an endogenous classification, here we refer to the alternative exogenous classification. Table C.2 in Appendix C.3 replicates the bivariate Granger causality tests for the narrative tax series described above under the assumption that, based on qualitative evidence, the austerity stance should be considered exogenous as a result of external constraints. By reclassifying, with everything else unchanged, the evidence is reversed. While the exogenous series now exhibits low p-values, especially for GDP, the endogenous series shows high p-values, especially for GDP and unemployment. Based on the idea of Granger causality tests as an approach to test the exogeneity assumption, the signs are inverted.

To this end, it is important to revisit the literature that uses narrative identification to isolate exogenously motivated fiscal consolidation in order to assess its impact. While the literature on the macroeconomic effects of tax changes has employed Granger causality tests to assess the exogeneity of the narrative series, no comparable tests are found in the austerity literature. In this literature, the exogeneity claim is based on qualitative arguments. Jordà and Taylor (2016) and Hernández De Cos and Moral-Benito (2013) show that fiscal consolidation is quite predictable based on past realisations of other macroeconomic variables. Guajardo et al. (2014) again find that fiscal shocks can be predicted by their past realisations. For the latter problem, Alesina et al. (2019a, Chapter 12) suggest analysing multi-year plans. This is not applicable in the present case, as the measures do not follow a multi-year plan, but rather represent a series of tax and spending changes that serve the goal of continued austerity. As for the former, they argue that predictability and exogeneity are two different things. The crucial criterion for narrative identification to avoid endogeneity problems, they argue, is that it is independent of current economic developments. The question of the constraints and leeway of Brüning's policy, and hence the question of exogeneity or endogeneity, cannot be answered conclusively statistically, but depends on qualitative evidence. Having dealt with the properties of the predictability of the series that austerity entails, in the following section we will alternatively estimate the effects under the inclusion of austerity.

## 4.4 The Macroeconomic Effects of Tax Changes

Equipped with a novel shock series of exogenous tax reforms, it is now possible to evaluate the dynamic causal effect of changing taxes. A tax change triggers a movement in both the economic outcome and tax revenue. To capture the evolution of both variables adequately, we use the concept of Mountford and Uhlig (2009), Fisher and Peters (2010) and Uhlig (2010) to calculate the multiplier as the integral of the motion in the outcome variable relative to the integral of the motion in tax revenue over a given period. This cumulative GDP multiplier represents the absolute change in GDP at each point in time up to the estimation horizon  $h$  divided by the absolute change in taxes over the same time span and scaled by lagged GDP. It is formalised as follows:

$$\frac{\sum_{j=0}^h \Delta GDP_{t+j}}{\sum_{j=0}^h \Delta T_{t+j}} \quad (4.2)$$

where  $\Delta GDP_{t+j} = \frac{Y_{t+j} - Y_{t-1}}{Y_{t-1}}$  and  $\Delta T_{t+j} = \frac{T_{t+j} - T_{t-1}}{Y_{t-1}}$  are the monetary unit changes in GDP and tax revenue, normalised to lagged GDP. Since GDP and taxes follow exponential trends, a transformation is generally necessary. This particular Hall-Barro-Redlick transformation of variables is carried out to overcome the common practice of using logs of variables whose estimated elasticities must first be translated into monetary units. The ex-post conversion of elasticities based on sample averages of the ratio of GDP to the fiscal variable results in upwardly biased multipliers. In the present transformed variables, the percentage changes are converted into changes in RM by evaluating the ratio of taxes to GDP  $T/Y$  at each point in time (Hall, 2009; Barro and Redlick, 2011; Owyang et al., 2013).<sup>9</sup> The resulting tax multiplier is the cumulative sum of the change in RM in GDP following a tax cut of 1 RM.

Following the approach of Ramey (2016) and Ramey and Zubairy (2018) to calculate the cumulative government expenditure multiplier and analogous to Cloyne et al. (2018), the cumulative tax multiplier can be calculated in a single step us-

<sup>9</sup>By scaling to potential GDP derived as an exponential trend, Gordon and Krenn (2010) offer an alternative transformation. The results are similar for the two methods of transformation (Ramey, 2016). For example, the results of Ben Zeev et al. (2023) and Goemans (2022) support that the results remain similar no matter how the variable is converted.

ing Jordà (2005)'s local projections and by incorporating the identified exogenous series of tax shocks as an instrument for the realized change in tax receipts over the estimation horizon  $h$ . This method has several advantages over the indirect method of integration and division of GDP and tax responses. First, direct estimation of the standard errors of the multiplier is feasible. Second, the tax shocks can be subject to measurement error or bias as long as they are not correlated with the measurement error in tax revenue. For example, if the projected revenue changes are subject to political considerations, this may bias the response. The IV alleviates such concerns by exploiting only the variation in the tax shock series that is correlated with actual revenue changes, while abstracting from other variation. Third, it focuses on the relevance of the instrument, which requires that the narrative series best reflects the timing and magnitude of the changes and opens up the possibility to use more than one instrument. The transformation described above is also desirable with respect to the instrument, as both represent a change in tax revenue over a given period, scaled by GDP. To estimate the cumulative tax multiplier in one step, we run the following series of regressions following the local projection instrument variable (LP-IV) strategy:

$$\sum_{j=0}^h \left( \frac{Y_{t+j} - Y_{t-1}}{Y_{t-1}} \right) = \alpha^h + B^h \sum_{j=0}^h \left( \frac{T_{t+j} - T_{t-1}}{Y_{t-1}} \right) + \Gamma^h(L)X_{t-1} + u_{t+h} \quad (4.3)$$

where GDP  $Y$  and tax yield  $T$  are in real terms. The narrative series of tax shocks serves as an instrument for the cumulative change in tax revenue at the respective horizon relative to the lagged GDP. The vector  $B^h$  contains the cumulative tax multiplier over the predefined horizon  $h$ .  $X$  is a vector of lagged controls. Causal identification requires by the exogeneity assumption 4.1b that the error term  $u$  is uncorrelated with the narrative instrument  $z$  conditional on the controls  $X$ . If the isolated shocks are indeed exogenous, the inclusion of additional controls should alter the results only marginally. To vary the lag length of the shocks and thus the number of instruments, the length is labelled  $Q$ . The lag length of the controls is indicated by  $P$ . The notation follows Cloyne et al. (2018) for simplicity and consistency with the existing literature. The gradual extension

of the projection horizon introduces serial correlation in the residuals, which is accounted for by the Newey and West (1987) standard errors.

To evaluate the cumulative multiplier, we estimate our regression equation 4.3 with GDP growth as the outcome variable and instrument with our narrative series for the change in tax revenue. The control vectors include the lagged explanatory and independent variables mentioned before, the deficit-to-GDP ratio as well as the changes in the unemployment rate and the Reichsbank discount rate.<sup>10</sup> For the period between 1925Q1 and 1939Q1, historical data are compiled on a quarterly basis in Ritschl (2002b). An overview of the time series used is given in Appendix C.2, together with information on the additional data used. In order to exploit as much variation as possible in this comparatively short time series, the choice of lag length is limited to one past period  $P = 1$  to maximise the sample, while no further lags of tax revenue changes are used as an instrument in the baseline with  $Q = 0$ .<sup>11</sup> The response is estimated over an 8-quarter horizon, as tax changes tend to take longer to build up their effects.<sup>12</sup>

#### 4.4.1 Baseline Multiplier

Our baseline in Figure 4.3 shows the cumulative tax multiplier on GDP. The evidence is non-standard and anomalous to the literature on the macroeconomic

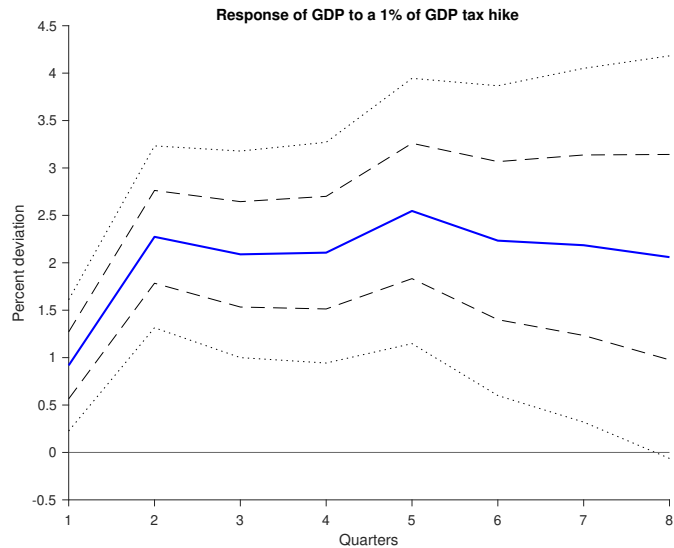
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<sup>10</sup>Local projections for the estimation of fiscal effects mostly use government expenditure as a control variable compared to the government budget deficit. In this case, the choice is motivated by the fact that Ritschl (2002b)'s government spending variable includes all central government spending, but abstracts from spending through shadow bills of exchange such as Mefo bills. Since both public work creation and rearmament efforts are financed through these instruments from 1933 onwards, the deficit seems to be the most appropriate choice of control variable. The results are not significantly affected by the choice of the control variable, as shown in Annex C.9. Figure C.15 provides robustness checks for exchanging the control variables and including both fiscal variables. The peak effect is reduced to almost 2, while the statistical significance remains unaffected.

<sup>11</sup>Robustness checks are performed for a variety of pairs of  $P$  and  $Q$  in Appendix C.7, Figure C.13. While the results are robust to the sign of the multiplier, the multipliers in particular inflate with increasing number of lags, while limiting the sample size.

<sup>12</sup>The specification as growth rates with an included lag and the horizon over which the local projections are estimated reduce the effective sample to the period from 1925Q3 to 1937Q1. It is common practice in the literature to harmonise the sample size in order to have enough observations for each impulse to estimate the response over the full horizon of the local projections. The horizon of 8 quarters and the implicit reduction exclude two particularly large shocks, the increase in the corporation tax and the levy on Jewish capital in 1938.

Figure 4.3: Cumulative GDP multiplier in response to a 1% of GDP increase in taxes



*Notes:* This figure plots the cumulative GDP multiplier over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3. The lag choice for the controls and the instrument is denoted by  $(P|Q)$  and is  $(1, 0)$  in the baseline. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

effects of tax changes. A tax increase of 1 RM is followed by a persistently positive multiplier with a peak effect of up to 2.5 after five quarters. In addition to the point estimates, the standard error bands for the 68 and 95 per cent intervals are also shown. At both levels of significance, the multipliers derived directly from the local projection instrument variables are statistically significantly different from zero for almost the entire two-year period. For identification to work, we need a valid instrument. To check whether our point estimates suffer from weak instrument bias, we turn to the first-stage F-statistics. The usual Kleibergen and Paap (2006) F-statistic is equivalent to the Montiel-Olea and Pflueger (2013) F-statistic in the case of a single instrument, while the latter provide stricter thresholds for the level of worst-case bias than the rule of thumb introduced in Staiger and Stock (1997). Figure C.14 in Appendix C.8 plots the F-statistic over the chosen 8-quarter horizon. The F-statistic is above the 20 per cent worst-case

bias threshold from the third quarter onwards, above the 10 per cent threshold from the fourth quarter onwards, and remains above these thresholds thereafter.

#### 4.4.2 Baseline impulse response functions

At this point, it is necessary to examine the robustness of the results generated, as they are counterintuitive and contrary to previous evidence. Due to the data situation, this phenomenon could be a statistical artefact. For instance the data in Ritschl (2002b) rely more heavily on interpolations from the second half of the 1930s onwards. To this end, we take a step back from the previously described methodology of directly estimating fiscal multipliers using LP-IVs, but estimate the impulse response functions directly using the Local Projections strategy through a series of regressions:

$$y_{t+h} - y_{t-1} = \alpha^h + B^h \Delta\tau_t + \Gamma^h(L)X_{t-1} + u_{t+h} \quad (4.4)$$

where  $y_{t+h} - y_{t-1}$  is the change in the dependent variable at the corresponding horizon relative to the previous period. The narratively isolated exogenous tax shocks  $\Delta\tau_t$  are included directly, although causal identification requires that the series is uncorrelated with the error term given the vector of control variables. Thus, the exogeneity assumption of 4.1b can be rewritten as  $E[\Delta\tau_t u_{t+h} | X_{t-1}] = 0$ . The vector  $B^h$  contains the responses  $\beta$  at each horizon  $h$  of the IRF.

The direct estimation of the multiplier in equation 4.3 is, given the same transformation as before, numerically identical to the procedure of aggregating the respective  $\beta$ s of the responses with GDP  $y_{t+h} - y_{t-1}$  and tax revenue  $t_{t+h} - t_{t-1}$  as dependent variables in the simple LP framework of equation 4.4 over the respective horizon, and then dividing the former cumulative response by the latter at the respective horizons  $h$ . In the following regressions we follow equation 4.4 in order to validate our results for the sign of the response in economic activity. Figure C.10 in Appendix C.4 shows a consistently positive, large and statistically significant response of output to the identified exogenous tax changes, despite a contemporaneous increase in tax revenue. It is worth noting that a fiscal shock of 1 per cent of GDP is followed by an increase in tax revenue as a percentage

of GDP of 1.6 per cent. This effect is amplified to a maximum of 2.2 per cent after one year, while it is statistically significant over 7 quarters at the 95 per cent confidence level. Mertens and Ravn (2013) have already argued that the narrative tax series are an approximation, rather than the true underlying structural shocks to taxation. This has led to a literature that uses narrative tax shocks as proxies. The logic of estimating the multiplier in the LP-IV formulation with narrative isolated tax reforms picks up exactly this logic.

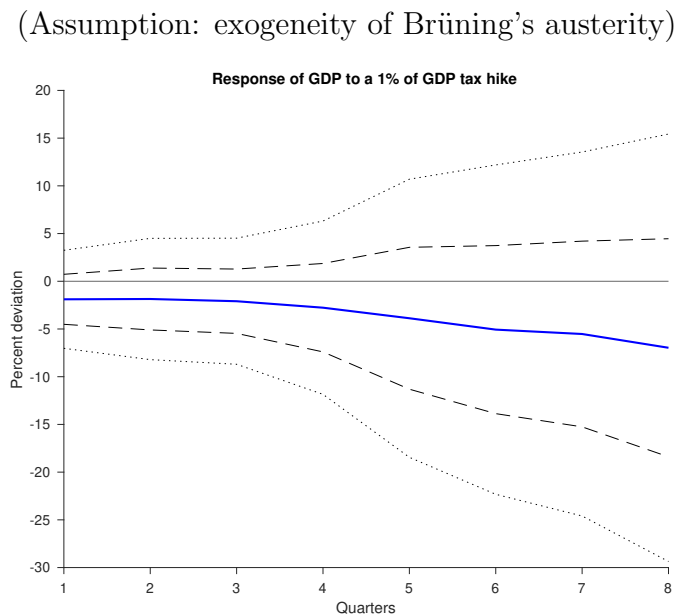
One might be concerned that business cycle movements dominate the data. With these caveats in mind, Figure C.11 in Appendix C.5 shows a similar picture to that described earlier in Figure C.10a using Hodrick and Prescott (1997) filtered GDP data. To address concerns that the GDP estimates may suffer from measurement error, Figure C.12 in Appendix C.6 uses either an industrial production index in Panel C.12a or gross production value in Panel C.12b as the outcome variable. Again, both indices show strong positive responses to tax increases over five quarters, with statistical significance at the 68 per cent level. The evidence presented for a positive response to tax increases in this particular case is strong and consistent across different outcome variables and transformations. In the remainder of this paper, we will take a closer look at the driving observations and other response variables in order to confirm the results and to identify possible channels. At this point, we will first turn to the tax series and the question of the endogeneity or exogeneity of fiscal austerity *per se*.

#### 4.4.3 Baseline Multiplier under inclusion of Brüning's austerity

Turning to the alternative baseline in which, based on the previous argument about the singularity of German fiscal policy during the Great Depression, *ceteris paribus*, we assume the exogeneity of Brüning's austerity and deflation measures. Figure 4.4 shows the cumulative tax multiplier induced by a narrative tax shock of 1 per cent of GDP, estimated from an LP-IV using equation 4.3. The inclusion of the austerity measures reverses the sign of the multiplier and we return to the standard evidence of negative multipliers for tax increases. The multiplier is -1.9 at impact and declines steadily to -7 over an 8-quarter horizon. The results are not

significant at any point in time at either the 68 or 95 per cent significance levels. The first-stage F-statistics are well below the usual thresholds, so the estimation suffers from weak instrument bias, as shown in Figure C.7 in Appendix C.3.

Figure 4.4: Cumulative GDP multiplier in response to a 1% of GDP increase in taxes



*Notes:* This figure plots the cumulative GDP multiplier over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 under the assumption that the Brüning emergency decrees are exogenous. The lag choice for the controls and the instrument is denoted by  $(P|Q)$  and is  $(1|0)$  in the baseline. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

Because of the short period between the inauguration of Brüning's first cabinet and the entry into force of the Young Plan, which provided for stricter payment modalities until its *de facto* repeal by the Hoover moratorium, we include a regime dummy for the period of its validity in an alternative specification. Figure C.9 shows surprising results. The consistently large effect, which reduces economic activity by as much as -8, decreases with the addition of this control to well around -0.8 between quarters 2 and 5, with a maximum effect of -1.5 after 8 quarters. The statistical significance is similar to the case without the Young Plan dummy. However, the fact that controlling for the Young Plan has such a



strong effect on the results suggests that the reparations regime may have had a stronger impact on economic development than Brüning's fiscal policy.

#### 4.4.4 Baseline impulse response functions under inclusion of Brüning's austerity

Given that the expected additional tax revenue resulting from the tax changes may not have materialised, i.e. the revenue feedback from the fall in GDP overrides the attempt to raise additional revenue, it is worth looking at the underlying IRFs according to equation 4.4 in a similar way to Section 4.4.2. In Section 4.5.5 we will discuss further how the feedback from GDP to tax revenue potentially complicates the calculation of multipliers. Figure C.8 in Appendix C.3 plots the IRFs for GDP and taxes in response to a narrative tax shock. In Figure C.8b, there is a statistically significant response in the change in tax revenue relative to GDP only over three quarters at the 68 per cent level. It is worth noting that the IRF tends to zero after 5 and 8 quarters. For the response of GDP in Figure C.8a, there is a statistically significant negative response at the 68 per cent level from quarter 3 onwards, with the largest contractionary effect of -5.7 in quarter 6. At this horizon the point estimate is also significant at the 95 per cent level.

#### 4.4.5 Response of public finances

From here, after two caveats, we return to our tax shock series, which assumes endogeneity for the austerity measures between 1930 and 1932. The behaviour of public finances following a tax increase of 1 per cent of GDP is analysed in the following exhibit. Figure 4.5 illustrates the reaction of (a) government expenditures and (b) the deficit-to-GDP ratio. The IRFs are generated from equation 4.4.

Tax multipliers depend crucially on the behaviour of other fiscal variables. The key factor is the financing of a tax change. Is a tax cut offset by an equal amount of expenditure restraint and thus interpreted as a balanced budget multiplier, or is it at the expense of accepting a higher deficit and is more comparable to a deficit-financed tax multiplier? Although we have tried to exclude from the sample those tax changes that are directly related to expenditure changes, the

resulting series is endogenous to the spending variable. We control for this fact by using a deficit variable that most comprehensively captures government activity in the interwar period.<sup>13</sup> In particular, in a period when fiscal policy oscillated between prudence and expansion, it is important to understand the behaviour of fiscal policy following tax increases in order to understand the actual multiplier in the baseline. Rather, the following graphs lead us to conclude that tax cuts induce a phase of equalisation between revenues and expenditures, so that we can assume a balanced budget multiplier for the multiplier presented above.

The response of government spending, scaled by GDP, to a tax increase of one per cent of GDP is shown in Figure 4.5a. Government expenditure falls by 2.3 per cent on impact and continues to fall to 3.3 per cent of GDP after 5 quarters. The response is negative for almost 6 quarters and statistically significant at the 68 per cent level. The identified fiscal shocks thus seem to mark the beginning of fiscal consolidation, with tax increases and expenditure cuts going hand in hand. Similarly, the deficit-to-GDP ratio in Figure 4.5b falls by up to 0.6 per cent after three quarters as a result of the narrative fiscal shock, although the effect is rather muted and insignificant.

#### 4.4.6 Response of monetary variables

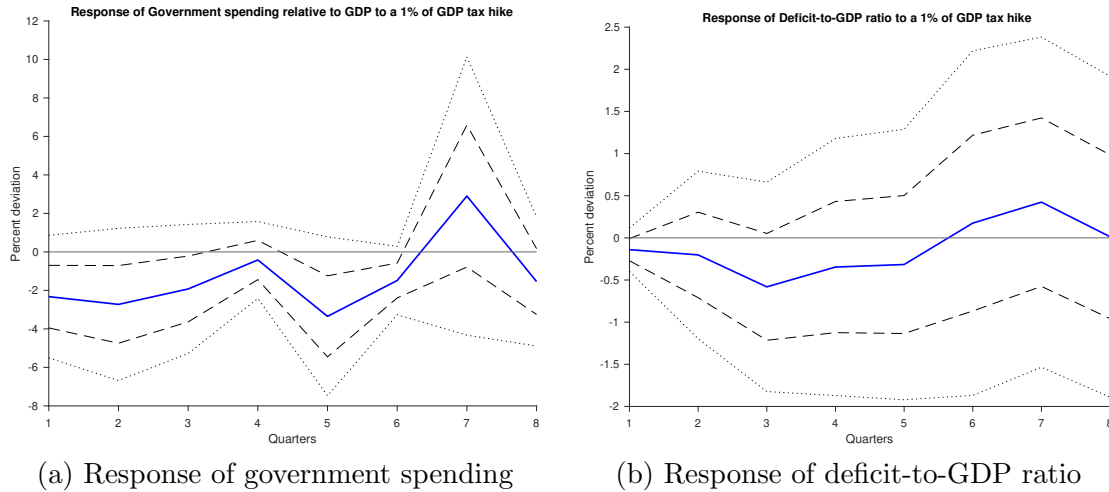
The response of some monetary variables to a tax rise of 1 per cent of GDP is assessed in the following graph. Figure 4.6 draws the response for (a) the Reichsbank discount rate, (b) the monetary base, (c) CPI inflation and (d) the private interest rate. The IRFs are calculated from a series of regressions following equation 4.4.

Both money supply and CPI inflation show a muted, largely statistically insignificant response to a narrative tax shock of 1 per cent of GDP. Prices fall by around 2 per cent on impact at a 68 per cent significance level, before returning to zero within a year. The money supply, in turn, increases rapidly, especially

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<sup>13</sup>One might be concerned that the choice of the fiscal control affects the results. If our point estimates are biased by the omission of fiscal variables or by the choice between the deficit or the expenditure variable, then adding them should change the results significantly. Figure C.15 in Appendix C.9 uses government spending instead of deficit as a control and both variables to check the robustness of the results. For each case, the multipliers obtained are within one standard deviation.

Figure 4.5: IRFs of fiscal variables

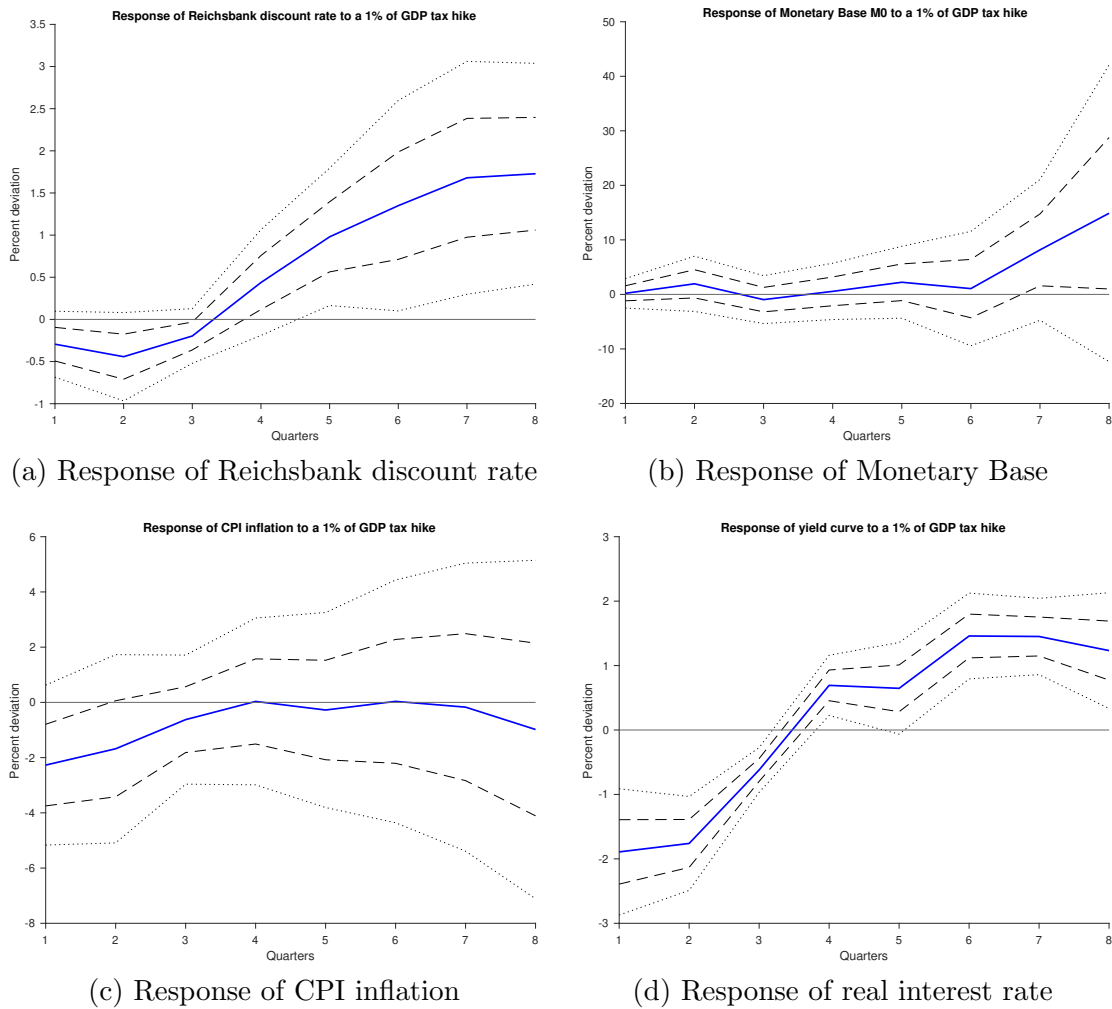


*Notes:* This figure plots the percentage response of (a) government spending with  $(G_{t+j} - G_{t-1})/Y_{t-1}$  and (b) the deficit with  $(T_{t+j} - T_{t-1})/Y_{t-1}$  relative to past GDP as the outcome variable over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

from the 6th quarter onwards. The Reichsbank discount rate and the real interest rate show similar patterns, with statistically significant negative effects in the first three quarters following the positive narrative tax impulse. While the Reichsbank discount rate falls by 0.44 per cent after half a year, the private interest rate declines by 1.9 per cent. In both cases, the rates rise after 4 quarters, with the private rate climbing to 1.5 percent after about 6 quarters. The Reichsbank discount rate increases by up to 1.7 per cent at the end of the estimation horizon.

Due to the miraculous increase in monetary supply during the Nazi regime with simultaneous government control over prices, it is reasonable to believe that these variables may be influencing the results. Appendix C.10, Figure C.16 provides a robustness check to alleviate such concerns. As control variables, the money supply, the implicit price deflator or both are added to the existing baseline. The multipliers obtained are within the 68 per cent confidence interval.

Figure 4.6: IRFs of monetary variables



*Notes:* This figure plots the percentage response of (a) the Reichsbank discount rate with  $i_{t+j} - i_{t-1}$ , (b) the monetary base with  $(M0_{t+j} - M0_{t-1})/M0_{t-1}$ , (c) CPI inflation, and (d) the real interest rate as the outcome variable over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

#### 4.4.7 Response of real variables

In the following paragraph we explore the response of consumption and investment as share of GDP and unemployment to a tax increase of 1 per cent of GDP. Figure 4.7 depicts the impulse response functions for (a) private investment, (b) private consumption and (c) the unemployment rate obtained from equation 4.4.

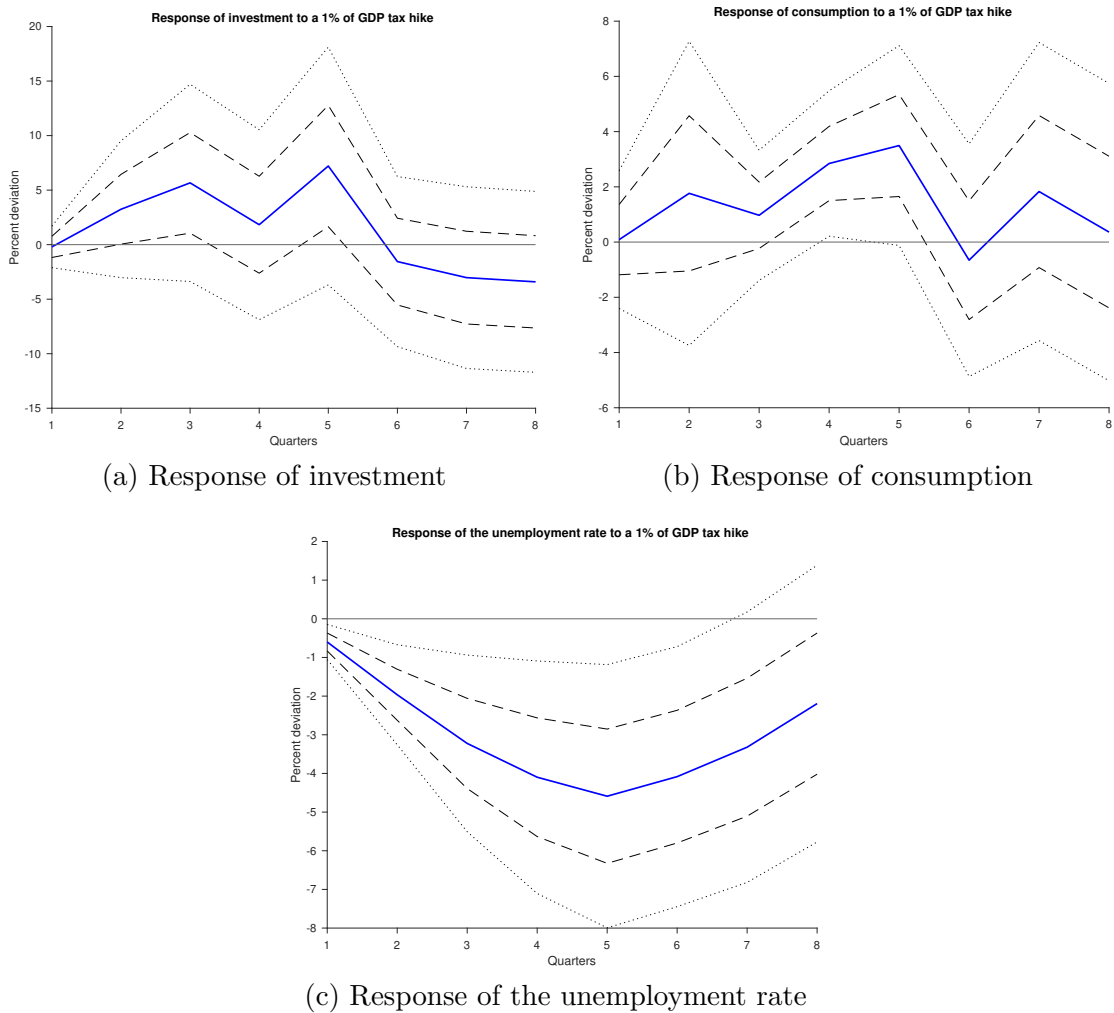
Both private investment and consumption show a positive response to a tax increase, which is significant at least at the 68 per cent level after about a year, before falling back to zero and becoming insignificant. The peak effect after five quarters is around 7.2 per cent for investment, about twice as high as for consumption at 3.5 per cent. This implies that investment is more sensitive to tax changes than consumption. Both IRFs show a similar pattern to the GDP response in Figure C.10a, with investment in particular showing a similar magnitude. Turning to the unemployment rate, it is particularly important to have a variable outside the national accounts that confirms the positive impact of a tax increase. Figure 4.7c shows a statistically significant fall in the unemployment rate for more than one and a half years of up to -4.6 per cent deviation. The response is remarkably smooth and it is important to note, that the positive impact of a tax increase equally maps into the labour market response.

#### 4.4.8 Response of trade

This section examines the response of foreign trade to a tax increase of 1 per cent of GDP. Figure 4.8 shows the impulse response functions for (a) imports, (b) exports and (c) the trade balance derived from equation 4.4.

It might be expected that the trade balance would develop unfavourably as a result of a tax increase. It seems reasonable to assume that the ability to export will be reduced by the increase in the domestic production costs due to higher taxation, while domestic demand for imports may be curbed by the increase. The trade balance basically confirms this assumption, turning significantly negative by up to 5 per cent of GDP within a year and a half. However, the intuition described above is not confirmed. Imports increase significantly within a year, while the reaction of exports is largely insignificant. Since there is a certain clustering of major tax reforms at the beginning of the sample, immediately after

Figure 4.7: IRFs of real variables



*Notes:* This figure plots the percentage response of (a) investment with  $(I_{t+j} - I_{t-1})/Y_{t-1}$ , (b) consumption with  $(C_{t+j} - C_{t-1})/Y_{t-1}$ , and (c) with  $u_{t+j} - u_{t-1}$  the unemployment rate as the outcome variable over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

the hyperinflation and the adoption of the Dawes Plan, the explanation may be interpreted more in terms of the general stabilisation of public finances and the related issue of currency stabilisation in the Dawes Plan.

## 4.5 Further Results and Robustness

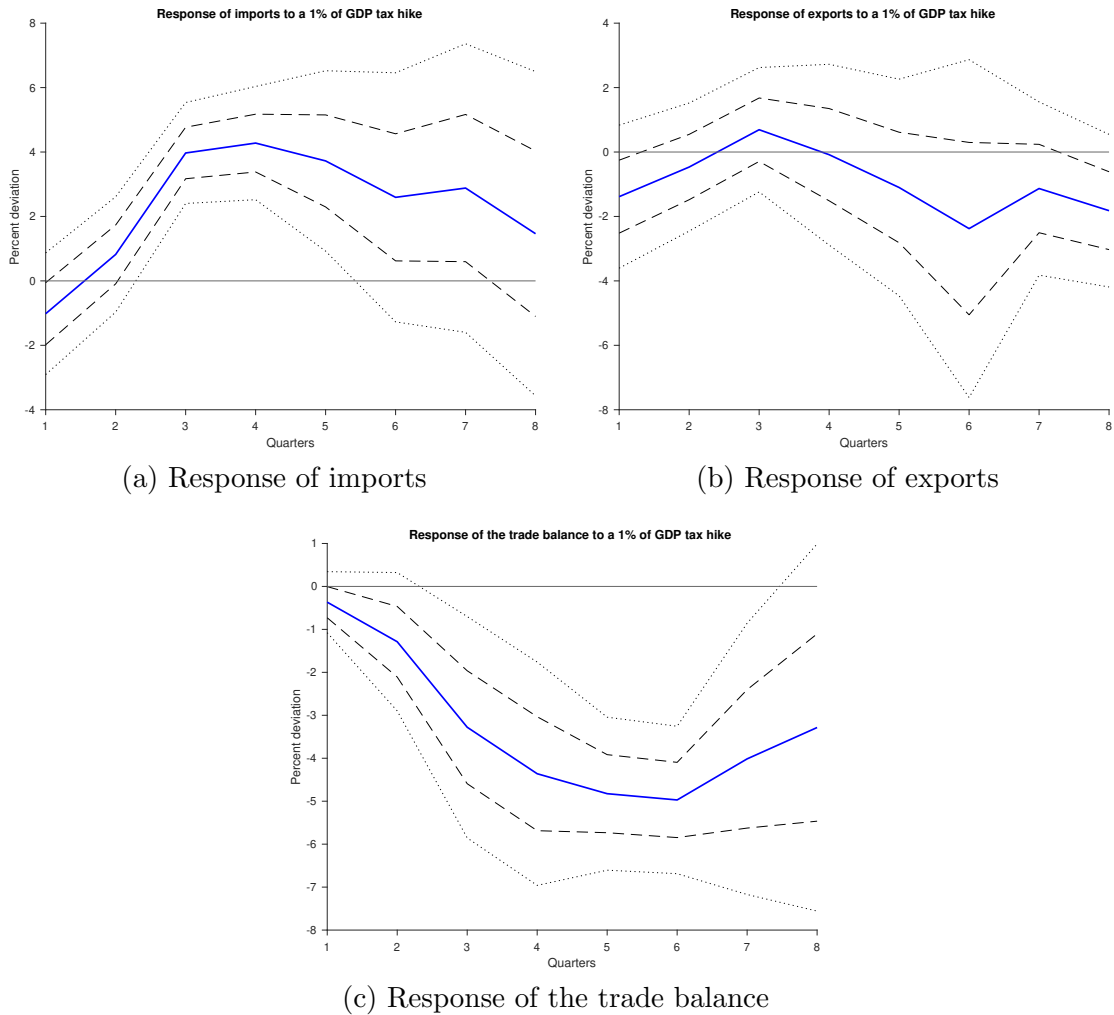
This section presents a series of sensitivity analyses and robustness checks. After presenting a series of robustness checks by adding monetary and fiscal variables directly in the context of the corresponding chapter, the following section specifically identifies the driving observations and tests the sensitivity of the results to individual tax reforms, the sensitivity of the results to the choice of lag, the inclusion of retroactive changes, trends and dummies, and finally presents the impulse response functions to the endogenous tax series.

### 4.5.1 Outliers and Sensitivity to certain reforms

Given the non-standard response of economic activity to tax increases presented in this paper, it is important to look more closely at the variation in the sample and to discuss possible outliers in their classification. Figure 4.9 shows the partial association between GDP and the narrative shock series from the simple local projection specification of equation 4.4 at horizon  $h = 1$  in panel (a),  $h = 4$  in panel (b) and  $h = 8$  in panel (c). In each case, the observations are labelled with the respective timing of the shock. The analogous partial regression plot for the endogenous series is shown in Figure C.18 in Appendix C.12. The Frisch-Waugh-Lovell theorem (Frisch and Waugh, 1933; Lovell, 1963) suggests that regressing the residuals of the narrative tax shock series and GDP on each other, after partialling-out the controls, gives us the same slope coefficient as in the original data. The slope coefficient is thus equal to the corresponding  $\beta$  at the respective horizon in the IRF of GDP to a 1 per cent of GDP tax shock presented in Figure C.10a.

Confirming our baseline results, the panels plotted at the three horizons show a clear positive relationship between GDP and the narrative tax series. While the narrative record includes some small reforms, it also includes equally large

Figure 4.8: IRFs of trade variables



*Notes:* This figure plots the percentage response of (a) imports with  $(M_{t+j} - M_{t-1})/Y_{t-1}$ , (b) exports with  $(X_{t+j} - X_{t-1})/Y_{t-1}$ , and (c) the balance of trade with  $(NX_{t+j} - NX_{t-1})/Y_{t-1}$  as the outcome variable over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.



changes in taxation. These stand out as extreme observations. They include the Popitz-Schlieben tax reform in 1925Q3, the increase in the burden on the Reichsbahn through the Dawes Plan in 1925Q4, large tariff increases in 1926Q3 and a rise in corporation tax in 1936Q4. The second increase in corporation tax in 1938Q3 and the Jewish property levy in the following quarter 1938Q4 are not included in the harmonised sample. It is apparent that the vast majority of the driving observations fall into the period of economic stabilisation following the hyperinflation and the conclusion of the Dawes Plan, which aimed to stabilise the currency and bring order to the Reich's budget. To check the extent to which each of these tax reforms drives the baseline multiplier, equation 4.3 is reassessed separately with one of these tax changes omitted. Figure C.19 in Appendix C.13 shows that each derived multiplier falls broadly within the 95 per cent confidence interval of the baseline.

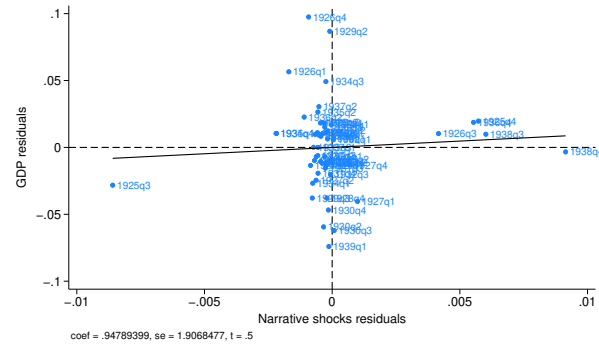
#### 4.5.2 Sensitivity to lag choice

This section examines the sensitivity of the results to the choice of lags for both the instrument labelled  $P$  and the remaining control variables labelled  $Q$ . The alternative specifications with  $(P|Q)$  pairs, represented by pink dashed lines in Figure C.13, Appendix C.7, consistently show positive multipliers, although it should be noted that there are particularly influential observations at the beginning of the sample which are partly omitted by the choice in the robustness checks. It is important to note that the multipliers remain positive regardless of the choice of lag.

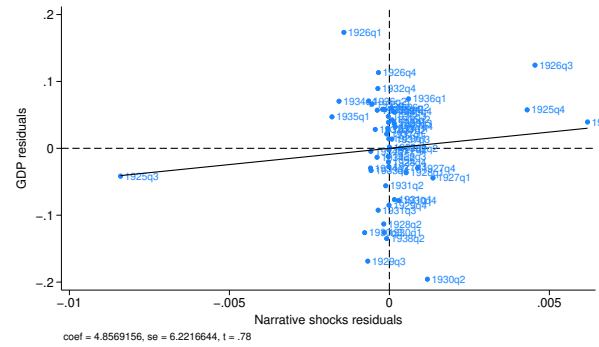
#### 4.5.3 Retroactive changes

One of the problems of German tax policy in the interwar period was the tendency to apply tax laws retrospectively. As a result, the changes in question have both a retroactive component and a component reflecting the future tax liabilities. Following the convention of Romer and Romer (2010), if the implementation date is before the announcement date, the retroactive component is abstracted and only the change in tax liability from the announcement date is taken into account. As it can be assumed that in the presence of a large number of retroactive changes,

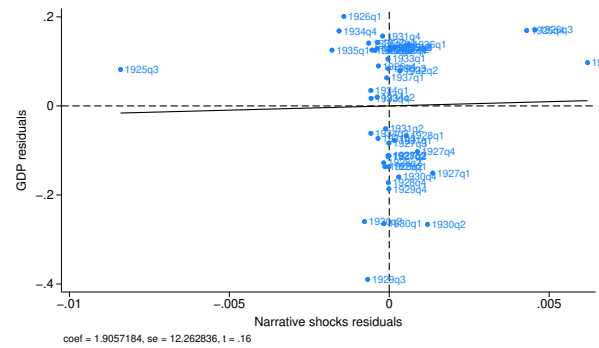
Figure 4.9: Partial Association Scatter Plot of Real GDP and Exogenous Narrative Tax shocks



(a) Horizon  $h = 1$



(b) Horizon  $h = 4$



(c) Horizon  $h = 8$

*Notes:* The upper panels present the partial association between real GDP growth and the narrative shock series according to equation 4.4 for horizons 1, 4 and 8.

the instrumented tax revenue has a catch-up effect in the first year after the change, a robustness check is performed by excluding all retroactive changes from the narrative series. Figure C.20 in Appendix C.14 shows that the alternative multiplier, represented by the dashed magenta line, is very close to the baseline.

#### 4.5.4 Sensitivity to trends and dummies

This section examines how the results are affected by the choice of trends and dummy variables. Figure C.21 in Appendix C.15 shows the alternative path of the multiplier for a linear, a quadratic or both trends in magenta dashed lines. In all three cases, the choice of trend seems to have little effect on the results, as the curves are within one standard deviation. Two regime dummies are introduced for the robustness checks in Figure C.22. Since one might think that the Nazi state economy or the state of the cycle might have a decisive influence on the level of the multiplier, we control for these circumstances with appropriate dummies. The results resemble the baseline multiplier very closely and are within one standard deviation.

#### 4.5.5 Response to endogenous tax changes

The calculation of cumulative fiscal multipliers is complicated by the response of government expenditure and taxes to GDP. In particular, tax revenues are highly procyclical. As Ramey (2019, p. 98) points out, this means that the lowering effect of a tax cut on tax receipts is overshadowed by the feedback effect of output expansion on tax receipts. An example of this is provided by Mertens and Ravn (2013, p. 1228): in their paper, there is only a marginal tax revenue response to the corporate tax cut, as the positive effects of the tax cuts offset it. This implies that the tax revenue response is very small and that potential multipliers calculated as the integral of the cumulative responses of GDP and taxes, as in formula 4.3, are inflated. Most of the papers in which these “top of the Laffer curve” effects appear limit themselves to using the projected revenue changes of the narrative series as a shock and abstract from the dynamic feedbacks of GDP on revenue. In the case of the tax changes classified as endogenous in this chapter, the effect is the opposite of Mertens and Ravn (2013, p. 1228). A tax increase of

1 per cent of GDP even finds a negative, albeit statistically insignificant, response in tax revenue relative to GDP, as shown in panel C.17b as an IRF. The effect on GDP (in panel C.17a) is also negative, with occasional statistical significance at the 68 per cent level within the first five quarters. The resulting multiplier, not shown, is not statistically significant. Those results are consistent with the assumption of a narratively identified endogenous tax shock series.

## 4.6 Discussion

The baseline results presented for the tax multiplier are positive in response to a tax increase, contrary to the usual evidence. In the previous sections we have shown that this evidence is strong and robust to a wide range of specifications. In particular, we have shown in Figure 4.9 that the driving observations are in the mid 1920s, immediately following hyperinflation and the Dawes Plan. Pegged to the gold standard, the Reichsmark was introduced in 1924 to stabilise the German currency. The aim of the Dawes Plan was to ensure the lasting stability of the budget and the currency, whereby the “solution of the double problem (...) indeed implies the restoration of Germany’s credit both externally and internally” (RT-Bd. 382, Drucks. 5, Report of the first committee of experts, p. 4). As Figure 4.5a shows, the prescribed fiscal consolidation was implemented in the first year after the narrative shock through both tax increases and corresponding expenditure cuts. As a result of this fiscal shock, the real interest rate fell, capital imports increased massively between 1926 and 1928 (Ritschl, 2002b, B.4.14)<sup>14</sup> and private investment and consumption increased, although the latter more moderately.

At this point, it is worth drawing on the austerity literature and sketching out a brief model that implies the expansionary effects of fiscal consolidation and outlines potential channels at work in line with our empirical findings.

Consider a country in the aftermath of the First World War that has rid itself of its internal debt through hyperinflation, but is saddled with an undefined large political debt called reparations. Domestic and foreign investors are concerned about how the reparations issue will be resolved, leaving the country without ac-

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<sup>14</sup>It would have been desirable to examine the role of capital imports. Unfortunately, the data is not available with the necessary frequency.

cess to capital markets. Consumers and investors are aware that a rescheduling of the external debt and a corresponding collection through quasi-taxes is necessary to meet the reparations obligations. The signal to meet external obligations now, and to credibly enforce them through levies, makes an even harsher enforcement at a later date unlikely. The suspicion that the government is unable or unwilling to meet its obligations and will continue to pursue a policy of high deficits leads to high risk premiums on government bonds and is also reflected in the interest rates charged to private agents in the domestic capital market. The credible implementation of fiscal consolidation of external liabilities leads to a restoration of confidence and, ultimately, to a regaining of access to the capital market and, consequently, to a decline in real interest rates on borrowed capital. Lower financing costs would therefore lead to higher investment. In this way, implementing a policy of reparation today, in order to guard against even more draconian demands in the future, can boost both private consumption and private investment.

Such a transmission channel, let us call it here the “capital market access and interest rate channel”, is generally described in Alesina et al. (2019a, pp. 21-22). Formalised, it can be found in Blanchard (1990) and, with direct reference to the stabilisation in the wake of the 1923/24 hyperinflation but before the completion of the Dawes Plan, in Alesina and Drazen (1991). The model sketch resembles the patterns identified in the empirical part of this paper quite well. It remains for further research to fully formalise the model.

The positive multiplier described above is based on a tax series that assumes the endogeneity of Brüning’s austerity. The derived multiplier is statistically significantly larger than 0, implying that a tax increase is followed by an expansion of economic activity. The standard Granger causality tests used in the tax literature provide quantitative support for the endogenous classification. In contrast, there is a wealth of qualitative evidence from the Borchardt debate on Heinrich Brüning’s austerity policy that points to exogeneity. On the one hand, the intention to obstruct reparations by demonstrating the unsustainability of reparations through a deliberately rigorous austerity policy and ultimately to achieve their cancellation; on the other hand, the lack of alternatives in foreign trade policy to generate trade surpluses and ultimately to restore foreign credits, given the ties of the Young Plan and an immanent balance of payments crisis. It is a curious

parallel that the replication of the standard evidence for tax multipliers depends crucially on the classification of austerity measures, with the austerity literature grounding exogeneity more in qualitative or narrative analysis, while the tax literature additionally invokes predictability tests for verification.

This is an intriguing problem that cannot be decided quantitatively alone, at least in the present case. There is strong qualitative evidence, diametrically opposed to the statistical evidence, that Brüning's policy is exogenous. Given the historical singularity of austerity between 1930 and 1932, it is reasonable to assume that the measures taken are indeed exogenous. Controlling for the strict payment conditions of the Young Plan, we return to the evidence known from Romer and Romer (2010), Cloyne (2013) or Hayo and Uhl (2014) on the multiplier, which reaches a maximum contractionary effect of -1.5. This estimate is smaller than the usual range of -2 to -3 for narratively identified multipliers, but consistent in sign. In this way, the chapter provides a striking example of how the narrative identification of exogenous variation can lead to completely contradictory results by giving different weight to qualitative and quantitative evidence in two strands of the literature.

## 4.7 Conclusion

In the debate about the potential of fiscal policy to influence the macroeconomy, the German interwar period has always been a projection screen for what Knut Borchardt (1979, p. 166) has called a “backward-looking problem-solving optimism”. Germany between 1925 and 1939 offers a plethora of changing environments in which fiscal policy operated, from the reparations boom fuelled by foreign capital inflows in the mid-1920s, to an immanent balance of payments crisis from 1930 onwards, to the transition to exchange rate control accompanied by domestic credit expansion under the Nazi regime. In the 1930s, when John Maynard Keynes, contrary to the prevailing doctrine of the time, advocated not saving but public spending to stabilise aggregate demand as the cure for the crisis, he already noted that this was “much more easily adapted to the conditions of a totalitarian state” (Keynes, 1936, p. xix). The apparently successful implementation of Keynesian ideas by the Nazis became a blueprint and led to the view

that Heinrich Brüning's attempt at stabilisation through deflation and budget consolidation was fundamentally mistaken and destabilised the Weimar Republic. This view has been challenged by Borchardt's (1979) claim that an expansion of the Reich's debt during the crisis was rejected as unfeasible and that the austerity policy was a direct consequence of a lack of access to credit. With this seminal paper, he sparked a debate on the constraints and room for manoeuvre of Brüning's policy.

We construct a series of tax changes, drawing extensively on contemporary material from the 1920s and 1930s. In line with the narrative identification strategy of Romer and Romer (2010), we divide the variation in taxation into exogenous and endogenous tax reforms, in order to exploit the former for a causal interference on the effects of tax changes on macroeconomic development. It is not without irony that the classification of Brüning's austerity measures in our identification strategy, which has been subject to a Keynesian interpretation for so long, decisively determines the level and sign of the multiplier in this chapter, whose concept is based on Keynesian ideas.

The motives for austerity policies discussed in the Borchardt debate can justify both an exogenous and an endogenous categorisation. Accordingly, we have followed two alternative paths with respect to the classification. An endogenous classification is qualitatively justified by the immanent need to respond to the balance of payments crisis and supported by predictability tests based on other macroeconomic variables. The results are surprising: a tax increase of 1 per cent of GDP is followed by a 2.5 per cent increase in economic activity as measured by GDP in Germany. The main argument in favour of an exogenous classification is the qualitative evidence, which in the Borchardt debate oscillates between the presumed motivation that Brüning wanted to restore foreign credit or to achieve the lifting of reparations. Including Brüning's measures in the exogenous series replicates the post-war evidence. A tax increase of 1 per cent of GDP is followed by a GDP contraction of about -1.5 per cent.

The evidence presented suggests that the classification of the austerity period plays a significant role in the sign and magnitude of the multiplier. A careful balance between qualitative and quantitative evidence is called for. Furthermore, by opening up new historical sources on German tax history and the expected

revenue changes associated with a tax change, this chapter provides a rich dataset on tax reforms between 1925 and 1939, which should form the starting point for further research.



# Chapter 5

# Conclusion

This thesis contains three chapters that contribute to the literature on fiscal policy in the German interwar period. In particular, the orthodox fiscal policy of austerity under Heinrich Brüning is blamed for exacerbating the crisis between 1930 and 1932. An expansionary fiscal policy during this period could have allowed for an alternative course of history. With the Keynesian revolution from the 1930s onwards, the recipe seemed simple: the state should stabilise aggregate demand in the crisis through public spending to combat the crisis. It is often forgotten that, as Joan Robinson (1972) put it, “Hitler had already found how to cure unemployment before Keynes had finished explaining why it occurred”. For an understanding of fiscal policy in the German interwar period, two integral questions arise from the above: First, what were the alternatives and constraints on Brüning’s policy, and second, what was the nature of the Nazi economic recovery?

In order to assess the impact of fiscal shocks on macroeconomic developments, Keynes’ theory popularised the estimation of multipliers. It tells us how effective fiscal policy can be, but evidence from the inter-war period is still scarce, while most studies focus on post-WWII data. This thesis seeks to provide empirical evidence on the size and sign of fiscal multipliers in the German interwar period. To estimate these, I use current empirical methods that exploit either cross-sectional variation or time variation to estimate the multiplier effects of government interventions.

Chapter 2 uses the variation in allocations from unemployment insurance (UI) to regional job creation measures to estimate regional job multipliers. The results suggest that the cost per job created is just above the level of welfare benefits. This means that *de facto* funds from UI have been reallocated and used as wages for those employed in public work creation. As a result, only marginal additional income, if any, could be earned from emergency work. Conversely, this meant that the emergency workers disappeared from the unemployment statistics without having caused any additional expenditure. In this sense, the Nazi’s miraculous “battle for work” produced a statistically lower unemployment rate, leaving the employed emergency workers with wages that barely exceeded the level of unemployment benefits.

Chapter 3 isolates the exogenous variation in German tax legislation between 1925 and 1939, following the narrative identification of Romer and Romer (2010).

For this purpose, all relevant tax changes, their substantive adjustments, their announcement and implementation, as well as their expected effects on tax revenues are extracted from a wealth of scattered documentation on budgetary and tax legislative processes. Exogenous tax reforms are all those which, because of their underlying motivations, do not respond to current or future economic developments, but were introduced for political, social or ideological reasons. In total, the resulting dataset contains about 200 tax changes, which are used as series of tax shocks for a macroeconometric analysis in the following chapter.

Chapter 4 employs the exogenous tax shock series to assess the impact of tax changes on economic development. Cumulative tax multipliers are estimated using time series techniques. This chapter finds that the sign of the multiplier depends on whether the Brüning austerity measures are treated as endogenous or exogenous. Assuming that they should be treated as endogenous, which is supported by standard predictability tests, we obtain surprising evidence. A tax increase has a statistically significant expansionary effect. However, the quantitative evidence for exogeneity is insufficient. The ongoing debate about the constraints and scope for Heinrich Brüning provides strong qualitative evidence in favour of exogeneity, even if statistical tests suggest otherwise. Under this assumption, and controlling for the stricter payment terms of the Young Plan, we return to the standard evidence of the post-war literature. A tax increase is followed by a contraction in economic activity. The contradiction in the categorisation of austerity measures between qualitative and quantitative evidence is particularly evident in this sample, but reflects the inconsistent application between the austerity literature and the tax literature. Both rely on narrative identification in the spirit of Romer and Romer, but differ in their classification schemes. While the austerity literature relies almost exclusively on qualitative evidence for classification, the tax literature uses predictability tests as an additional check on exogeneity.

The chapters on the narrative identification of tax multipliers impressively demonstrate the vulnerability of this strategy to potentially subjective judgments. Moreover, depending on the strand of literature, there may be structurally different assessments of endogeneity and exogeneity for the same legislative reforms. It remains for further research to carefully examine the qualitative evidence for its consistent application across different strands of the literature and to recon-

cile the different approaches in the literature. In particular, when dealing with fiscal consolidation measures, the present example of Brüning's austerity calls for particular caution in classification and a careful weighing of qualitative and quantitative evidence.

# Appendix A

## Appendix to Chapter 2

Hitler's Jobs Multipliers:

Evidence from interwar public relief works, 1933-1937

## A.1 Data Sources

*Employment.* – Employment data is compiled from various annual statistical reports “*Statistische Jahresübersichten*” edited by *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*. The data is based on health insurance records including both, employees exempt from and subject to compulsory insurance.

*Employment series IfK.* – “Zahl der regulär und zusätzlich Beschäftigten” in Wagemann (1935) of the *Institut für Konjunkturforschung* covering the fiscal years 1932/33, 1933/34 and 1934/35.

*Unemployment.* – Data on registered unemployed in the states are from various volumes of *Statistische Jahresübersichten* edited by *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung* and published in *Reichsarbeitsblatt*.

*State 1933 residential population.* – The data on residential population in the Landesarbeitsamtsbezirken are from Statistisches Reichsamt (1934).

*State 1933 area.* – “Flächengröße der Landesarbeitsamtsbezirke und der Arbeitsamtsbezirke in Quadratkilometern” Area in square kilometres of the states in Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung (1937a).

*RfAA payouts.* – Collected from various annual reports of the *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*. Payouts are the sum of Grundförderung (§ 139 Abs. 1), Maßnahmen der wertschaffenden Arbeitslosenfürsorge, freiwilliger Arbeitsdienst (§ 139a), Landhilfe and Deutscher Frauenarbeitsdienst, including both RfAA and Krisenfürsorge outlays.

*State working population.* – Sum of employed blue-collar and white-collar worker, people out-of-work and sick persons, reconstructing the methodology employed in *Statistische Jahresübersichten 1937* edited by *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*.

*Nazi vote share.* – The Reichstag elections of 5 March 1933, 12 November 1933, 29 March 1936 and the referendum on the head of state on 19 August 1934 published in *Statistik für das Deutsche Reich* are aggregated to the state level following the borders of state unemployment exchanges. The 35 electoral districts are aggregated following Preller (1949)'s regional equivalences as done in Frey and Weck (1981, 1983).

*Share in total unemployment.* – Data on registered unemployed in the states are from various volumes of *Statistische Jahresübersichten* edited by *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung*.

*Price level.* – The price level is obtained from Ritschl (2002b), series B.8.3 rebased to 1933.

*NSDAP members.* – Data on the number of people who joined the NSDAP as members before and after seizure to power as well as total figures as of 31 December 1934 are from Reichsorganisationsleiter der NSDAP (1935, p. 27). The data is on level of the NSDAP administrative divisions. The figures on *Gaue* are aggregated to *Landesarbeitsamtsbezirke* according to Table A.1 column four in Appendix A.2.

*Agricultural and forestry enterprises.* – Data on the number of agricultural and forestry enterprises are collected during the census 1933 and published in Statistisches Reichsamtsamt (1933b). The data is on the level on states and provinces and were aggregated to *Landesarbeitsamtsbezirke* according to Table A.1, column two in Appendix A.2.

## A.2 Regional equivalences of administrative divisions

Table A.1: Regional equivalences of administrative divisions

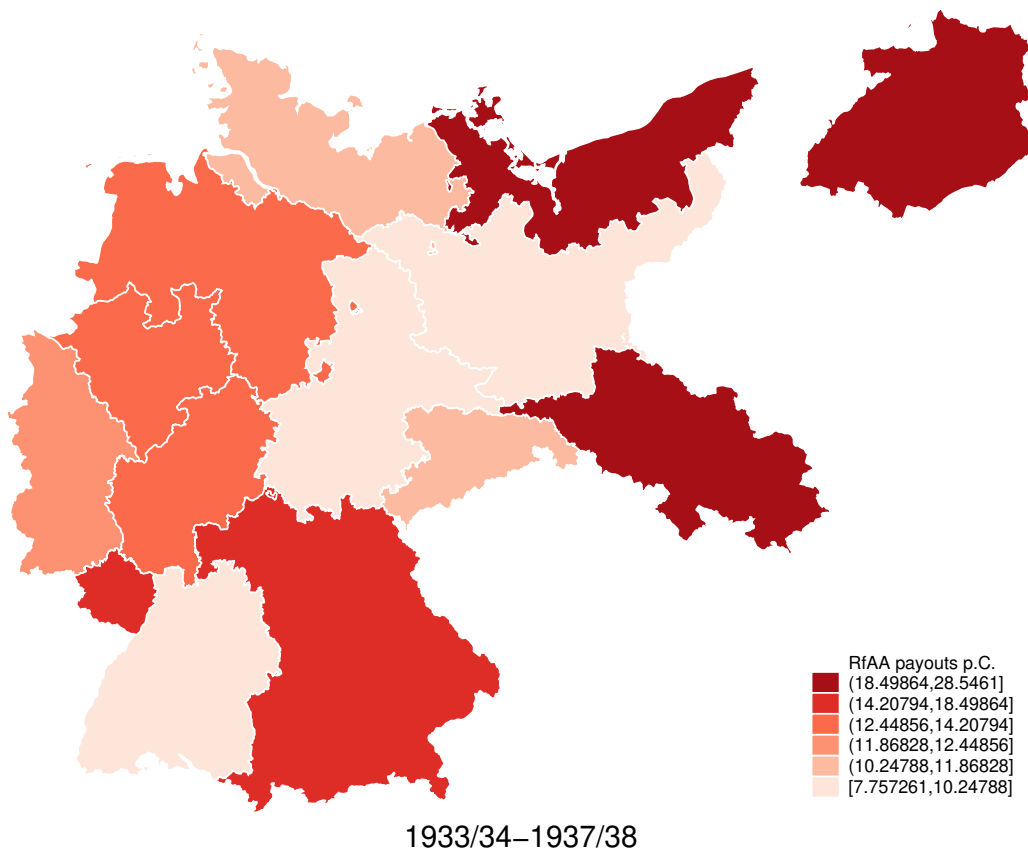
Nr.	Landesarbeitsamtsbezirke	Landbezirke	Wahlbezirke	NSDAP Gau
1.	Ostpreußen	Ostpreußen	Ostpreußen	Ostpreußen Danzig
2.	Schlesien	Oberschlesien Niederschlesien	Breslau Liegnitz	Schlesien
3.	Brandenburg	Berlin Grenzmark Posen-Westpreußen Brandenburg	Berlin Potsdam I/II Frankfurt an der Oder	Groß-Berlin Kurmark
4.	Pommern	Pommern Mecklenburg-Strelitz	Pommern Mecklenburg	Pommern
5.	Nordmark	Lübeck/Hamburg Schleswig-Holstein Mecklenburg-Schwerin	Hamburg Schleswig-Holstein	Hamburg Schleswig-Holstein Mecklenburg-Lübeck
6.	Niedersachsen	Hannover/Bremen Oldenburg Braunschweig Schaumburg-Lippe	Weser-Ems Ost-/Südhanover Braunschweig	Weser-Ems Ost-Hannover Süd-Hannover-Braunschw.
7.	Westfalen	Westfalen Lippe	Westfalen-Nord Westfalen-Süd	Westfalen-Nord Westfalen-Süd
8.	Rheinland	Rheinprovinz	Köln-Aachen Koblenz-Trier Düsseldorf-Ost/West	Köln-Aachen Koblenz-Trier Düsseldorf Essen
9.	Hessen	Hessen Hessen-Nassau	Hessen-Darmstadt Hessen-Nassau	Kurhessen Hessen-Nassau
10.	Mitteldeutschland	Provinz Sachsen Thüringen Anhalt	Thüringen Magdeburg Merseburg	Halle-Merseburg Magdeburg-Anhalt Thüringen
11.	Sachsen	Sachsen	Dresden-Bautzen Leipzig Chemnitz-Zwickau	Sachsen
12.	Bayern (einschl. Pfalz)	Bayern	Oberbayern-Schwaben Franken Niederbayern-Oberpfalz Pfalz	München-Oberbayern Schwaben Franken Mainfranken Bayerische Ostmark Pfalz
13.	Südwestdeutschland	Württemberg Baden Hohenzollern	Württemberg Baden	Württemberg-Hohenz. Baden

*Notes:* Columns two to four had been originally published in Preller (1949) and were used by Frey and Weck (1981, 1983). Column four is an extension of those equivalences on NSDAP *Gaue* by the author of this paper. The basis is the map *Die Bezirke der Landesarbeitsämter und der Arbeitsämter im Deutschen Reich, Stand vom 1. Juni 1941* edited by the Reich Ministry of Labour from SBB, Kart. L 4680.



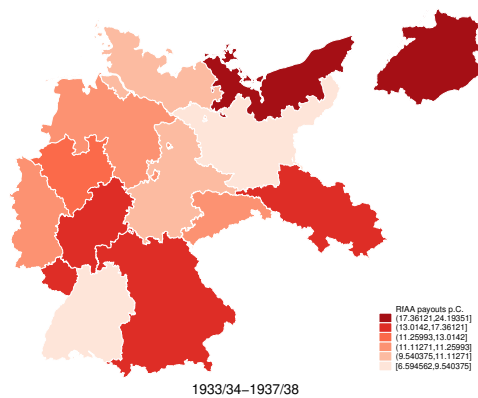
### A.3 Geographical Distribution of RfAA payouts

Figure A.1: Geographical Distribution of total RfAA payouts per Capita

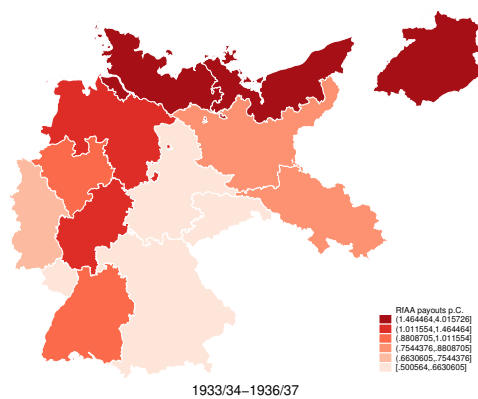


*Notes:* Sum of total RfAA payouts over the sample period of the fiscal years 1933/34-1937/38 in current RM per Capita.

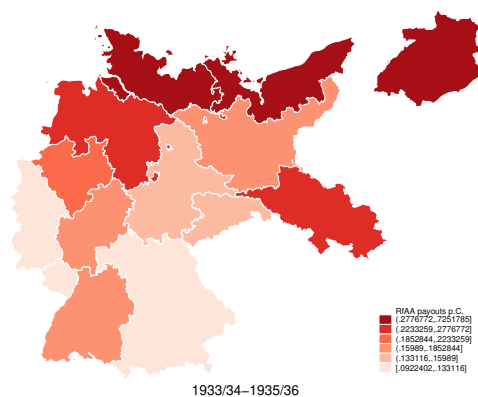
Figure A.2: Geographical Distribution of RfAA payouts by categories



(a) Grundförderung



(b) Landhilfe

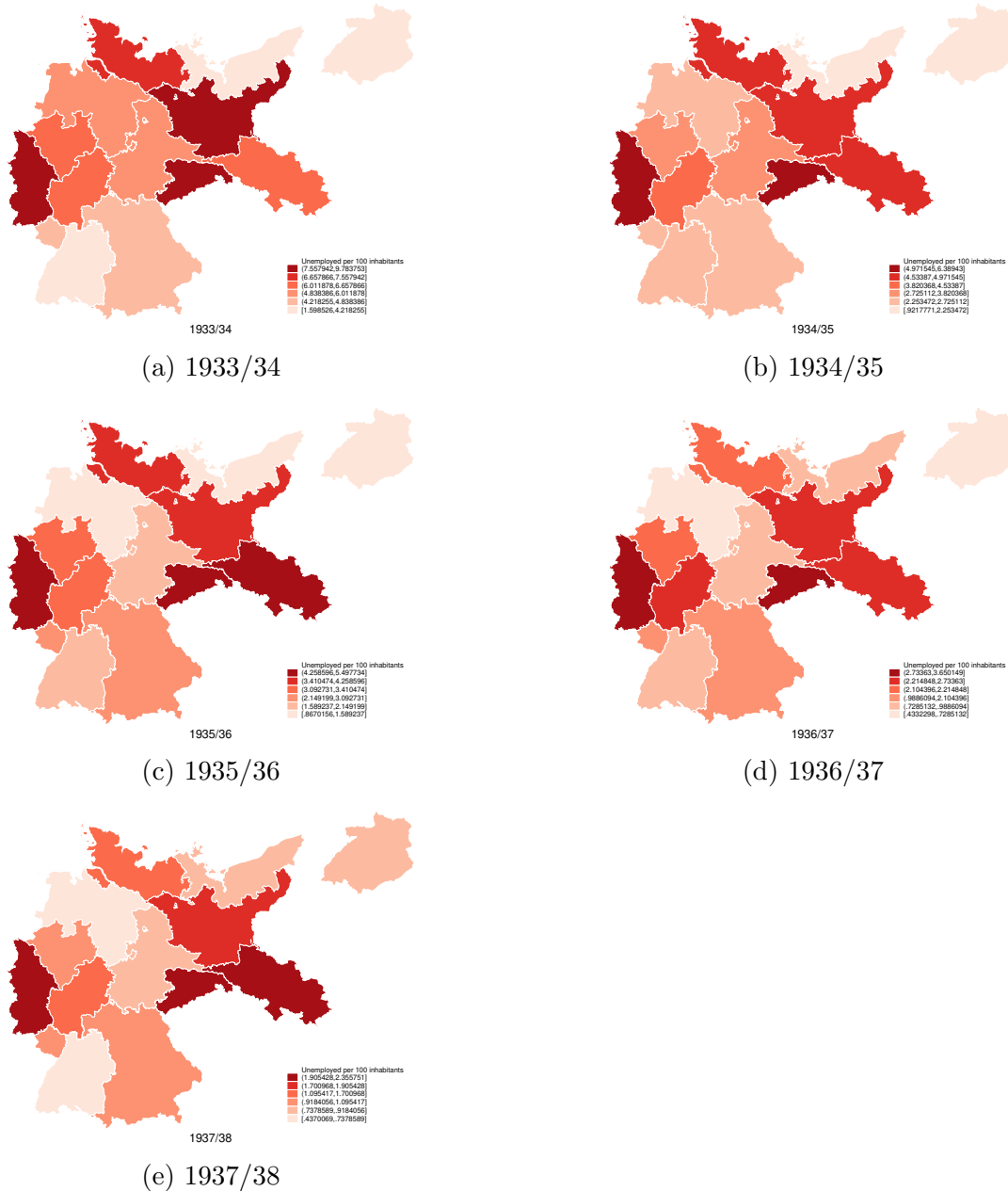


(c) Deutscher Frauenarbeitsdienst

*Notes:* Sum of total RfAA payouts by categories over the sample period of the fiscal years 1933/34–1937/38 in current RM per Capita.

## A.4 Geographical Distribution of Unemployment

Figure A.3: Geographical Distribution of Unemployment



Notes: Number of unemployed persons per 100 inhabitants. Residential population in the *Landesarbeitsamtsbezirke* from the census of 16 June 1933 as published in Statistisches Reichsamt (1934).

## A.5 Distribution of RfAA funds

Table A.2: Determinants of fund distribution

	RfAA	Grundförderung	Landhilfe	Frauenarbeitsdienst
	(1)	(2)	(3)	(4)
Area, in km <sup>2</sup>	1.904*** (3.900)	1.655*** (3.710)	0.149 (1.669)	-0.000 (-0.059)
Population density, persons per km <sup>2</sup>	234.818*** (3.856)	206.555*** (3.431)	16.059 (1.234)	-0.001 (-0.491)
Unemployed, total number	0.012 (0.344)	0.020 (0.574)	-0.005 (-1.032)	0.000 (0.696)
Agricultural and forestry enterprises, total number under 50ha	-0.043 (-0.669)	-0.027 (-0.411)	-0.010 (-1.169)	-0.000 (-0.257)
NSDAP members, total number pre 1933	-0.560** (-2.700)	-0.553** (-2.917)		
Nazis votes, share in percent			34.145 (0.851)	0.021** (2.920)
Observations	13	13	13	13
$R^2$	0.97	0.96	0.92	0.95

*t* statistics in parentheses

\*\*\* Significant at the 1 percent level.

\*\* Significant at the 5 percent level.

\* Significant at the 10 percent level.

The dependent variables of columns one to four are total spendings in RM out of the RfAA budget in the period of 1933/34 to 1937/38. While column one includes all spending, two to four distinguish by spending category. Those are: *Grundförderung* (2), *Landhilfe* (3) and *Deutscher Frauenarbeitsdienst* (4). The explanatory variables are area, population density as of June 1933, unemployment in January 1933, agricultural and forestry enterprises under 50ha, NSDAP members pre 1933 and Nazi vote shares in the 5 March 1933 election. There is a positive and statistically significant correlation for both total RfAA outlays and *Grundförderung* in columns one and two with area and population density while the NSDAP members before seizure to power have a rather negative impact. Column four finds a positive relation between voter approval and attributed *Frauen-*

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*arbeitsdienst* funds to the states. It is noteworthy that there are no significant effects of unemployment on the distribution of RfAA funds in the sample.

## A.6 Employment statistics of IfK and Health insurance

Table A.3: Employment structure and statistics

	IfK	Health insurance
Industrial workers <sup>a</sup>	»regular« employment	} employment
Workers in trade and transport, etc. <sup>a</sup>		
Workers in agriculture and forestry <sup>a</sup>		
White-collar workers <sup>a</sup>		
Domestic workers <sup>a</sup>		
Land helpers <sup>a</sup>	»additional« employment	}
Emergency relief workers <sup>a</sup>		
Labour service <sup>b</sup>		
Care workers		

<sup>a</sup> Without sick people.

<sup>b</sup> From 1936 on without labour service.

*Notes:* The figure illustrates the definitions of the employment variables of the IfK and the health insurance statistics following the *Wochenbericht des Instituts für Konjunkturforschung*, Vol. 7 No. 10, p. 46. From 1936 onwards, voluntary labour service was excluded from the definition of supplementary employment by the IfK (ibid., Vol. 9 No. 3, p. 12).

# Appendix B

## Appendix to Chapter 3

A Narrative Record for  
Interwar Tax changes in Germany, 1925-1939

## B.1 Reich budget

Table B.1: Budgets of the Reich, 1924-1933

<b>Panel A: Verhandlungen des Reichstags - drafted budgets</b>			
Wahlperiode	Band	Anlage Nr.	Fiscal year
III. Wahlperiode 1924	413	2888	1927 (with RR revisions)
III. Wahlperiode 1924	413	2892	1927
III. Wahlperiode 1924	421	3854	1928
IV. Wahlperiode 1928	421	361	1928 (revised)
IV. Wahlperiode 1928	434	885	1929
IV. Wahlperiode 1928	440	1654	1929 (supplementary budget)
IV. Wahlperiode 1928	441	1993	1930
IV. Wahlperiode 1928	442	2139	1930 (1st supplementary budget)
IV. Wahlperiode 1928	443	2257	1930 (2nd supplementary budget)
V. Wahlperiode 1930	448	311	1931
V. Wahlperiode 1930	451	1058	1931 (with RT revisions)
<b>Panel B: Statistisches Jahrbuch für das Deutsche Reich - adopted budgets</b>			
Jahrgang	Band	page	Fiscal years
44. Jahrgang, 1924/25	1924	344	1924, 1925
45. Jahrgang, 1926	1926	407	1925, 1926
46. Jahrgang, 1927	1927	458	1926, 1927
47. Jahrgang, 1928	1928	517	1927, 1928
48. Jahrgang, 1929	1929	415	1928, 1929
49. Jahrgang, 1930	1930	469	1929, 1930
50. Jahrgang, 1931	1931	445	1930, 1931
51. Jahrgang, 1932	1932	441	1931, 1932
52. Jahrgang, 1933	1933	421	1932, 1933
53. Jahrgang, 1934	1934	423	1932, 1933
54. Jahrgang, 1935	1935	430	1932, 1933



## B.2 Reich budget - Section XVII

Table B.2: Budgets of the tax authorities, 1924-1939

<b>Einzelplan XVII – Haushalt der Allgemeinen Finanzverwaltung</b>		
Archive	Signature	Name
Grimm-Zentrum	F 20703:F4	Rechnungsjahr 1924
Grimm-Zentrum	F 20703:F4	Rechnungsjahr 1925
Grimm-Zentrum	F 20703:F4	Rechnungsjahr 1926
Grimm-Zentrum	F 20703:F4	Rechnungsjahr 1927
Grimm-Zentrum	F 20703:F4	Rechnungsjahr 1928
Grimm-Zentrum	F 20703:F4	Rechnungsjahr 1929
Grimm-Zentrum	F 20703:F4	Rechnungsjahr 1930
Grimm-Zentrum	F 20703:F4	Rechnungsjahr 1931
Grimm-Zentrum	F 20714:F4	Published as “Plan über die Verwaltung der Einnahmen und Ausgaben des Reichs im Rechnungsjahr 1932 nebst Einzelplänen”
Bundesfinanzhof	B002/QA 76700	Rechnungsjahr 1933
Bundesfinanzhof	without signature	Rechnungsjahr 1934
Bundesfinanzhof	B002/QA 76700	Rechnungsjahr 1935
Bundesfinanzhof	B002/QA 76700	Rechnungsjahr 1936
Bundesfinanzhof	B002/QA 76700	Rechnungsjahr 1937
Bundesfinanzhof	B002/QA 76700	Rechnungsjahr 1938
Bundesfinanzhof	B002/QA 76700	Rechnungsjahr 1939

## B.3 Government declarations

Table B.3: Government declarations of the Reich Chancellor, 1925-1933

<b>Verhandlungen des Reichstags - Government declarations</b>				
Date	Reich Chancellor	Party	Source	
19 January 1925	Hans Luther	<i>independent</i>	RT-Bd. 384, pp. 91-96	
26 January 1926	Hans Luther	<i>independent</i>	RT-Bd. 388, pp. 5145-5149	
19 May 1926	Wilhelm Marx	<i>Zentrum</i>	RT-Bd. 390, pp. 7321-7322	
3 February 1927	Wilhelm Marx	<i>Zentrum</i>	RT-Bd. 391, pp. 8791-8796	
3 July 1928	Hermann Müller	<i>SPD</i>	RT-Bd. 423, pp. 38-46	
1 April 1930	Heinrich Brüning	<i>Zentrum</i>	RT-Bd. 427, pp. 4728-4730	
16 October 1930	Heinrich Brüning	<i>Zentrum</i>	RT-Bd. 444, pp. 17-22	
13 October 1931	Heinrich Brüning	<i>Zentrum</i>	RT-Bd. 446, pp. 2069-2077	
4 June 1932	Franz von Papen	<i>Zentrum</i>	AdRk von Papen, Bd. I (1932), Dok. Nr. 7.	

## B.4 Budgetary debates

Table B.4: Opening addresses by the Reich Minister of Finance in the budgetary debates, 1926-1931

<b>Verhandlungen des Reichstags</b> - Budgetary debates					
Date	Finance Minister	Party	Budget	Source	
10 February 1926	Peter Reinhold	<i>DDP</i>	1926	RT-Bd. 388, pp. 5402-5413	
16 February 1927	Heinrich Köhler	<i>Zentrum</i>	1927	RT-Bd. 392 pp. 9005-9017	
19 January 1928	Heinrich Köhler	<i>Zentrum</i>	1928	RT-Bd. 394, pp. 12232-12244	
14 March 1929	Rudolf Hilferding	<i>SPD</i>	1929	RT-Bd. 424, pp. 1402-1411	
2 May 1930	Paul Moldenhauer	<i>DVP</i>	1930	RT-Bd. 427, pp. 5013-5022	
3 December 1930	Hermann Dietrich	<i>DVP</i>	1931	RT-Bd. 444, pp. 221-230	

## B.5 German Federal Archives

Table B.5: Archival sources from Bundesarchiv Berlin, 1925-1939

Signature	Name	Laufzeit
<b>Bestand R 43-I Reichskanzlei – 1.12 Finanzwesen (1919 - 1944)</b>		
Steuerpolitik und allgemeine Steuerangelegenheiten		
R 43-I/2395	Band 3	(1923) Jan. 1924 - Jan. 1925
R 43-I/2396	Band 4	Jan. 1925 - Mai 1925
R 43-I/2397	Band 5	Juni 1925 - Nov. 1926
R 43-I/2398	Band 6	Jan. 1927 - Sept. 1928
R 43-I/2399	Band 7	Okt. 1928 - Dez. 1929
R 43-I/2400	Band 8	Jan. 1930 - Dez. 1930
R 43-I/2401	Band 9	Jan. 1931 - Jan. 1933
Direkte Steuern		
R 43-I/2405	Bd. 4	Jan. 1924 - Dez. 1925
R 43-I/2406	Bd. 5	Jan. 1926 - Sept. 1930
R 43-I/2407	Bd. 6	Okt. 1930 - Dez. 1931
R 43-I/2408	Bd. 7	Jan. 1932 - Jan. 1933
Indirekte Steuern		
R 43-I/2411	Bd. 3	Jan. 1924 - Nov. 1928
R 43-I/2412	Bd. 4	Jan. 1929 - Sept. 1931
R 43-I/2413	Bd. 5	Okt. 1931 - Aug. 1932
Steuerabzug, insbes. Reichseinkommensteuer		
R 43-I/2415	Bd. 2	Jan. 1924 - Aug. 1928
Allgemeine Zollangelegenheiten, Zolltarif und Zollgesetz		
R 43-I/2417	Bd. 2	Okt. 1924 - Mai 1925
R 43-I/2418	Bd. 3	Mai 1925 - Apr. 1926
R 43-I/2419	Bd. 4	Apr. 1926 - März 1927
R 43-I/2420	Bd. 5	Apr. 1927 - Dez. 1929
R 43-I/2421	Bd. 6	Jan. 1920 - Sept. 1931
R 43-I/2422	Bd. 7	Sept. 1931 - Jan. 1933
R 43-I/2424	Zinkzoll	März 1931 - Juli 1932

Continued on next page

Table B.5 – continued from previous page

Signature	Name	Laufzeit
Landwirtschaftliche Zölle		
R 43-I/2425	Bd. 1	Juni 1925 - Juni 1930
R 43-I/2426	Bd. 2	Juli 1930 - Apr. 1931
R 43-I/2427	Bd. 3	Mai 1931 - Jan. 1933
R 43-I/2428	Internationale Zollkonferenzen	Nov. 1929 - Juni 1931
Lotteriewesen		
R 43-I/2429	Bd. 1	Mai 1919 - Apr. 1932
Monopole und Monopolämter		
R 43-I/2431	Bd. 1	Sept. 1919, März 1923 - Jan. 1933

Continued on next page

Table B.5 – continued from previous page

Signature	Name	Laufzeit
<b>Bestand R 43-II Reichskanzlei – 1.12 Finanzwesen (1919 - 1944)</b>		
Steuerpolitik und allgemeine Steuerangelegenheiten		
R 43-II/787	Band 10	März 1933 - Okt. 1934
R 43-II/788	Band 11	Okt. 1934 - Nov. 1935
R 43-II/789	Band 12	Dez. 1935 - Jan. 1943
R 43-II/789a	Band 13	Juni 1938 - Dez. 1941
R 43-II/790	Band 14	März 1939 - Dez. 1939
Besitzsteuern		
R 43-II/791	Band 1	Sept. 1933 - Okt. 1935
R 43-II/792	Band 2	1935 - 1937
R 43-II/792a	Band 3	1937 - 1940
R 43-II/793	Band 4	1938 - 1939
R 43-II/793a	Band 5	1939 - 1941
Verkehrssteuern		
R 43-II/796	Band 1	Jan. 1933 - Mai 1936
R 43-II/798	Band 2	1936 - 1938
R 43-II/798a	Band 3	1939 - 1944
Verbrauchssteuern		
R 43-II/797	Band 1	Feb. 1933 - Jan. 1936
R 43-II/798b	Band 2	1936 - 1942
Allgemeine Zollangelegenheiten, Zolllarif und Zollgesetz		
R 43-II/800	Band 8	Feb. 1933 - Dez. 1935
R 43-II/799	Band 9	1936 - 1939
R 43-II/801	Zölle im einzelnen und Zolländerungen	Feb. 1933 - Aug. 1935
Lotteriewesen		
R 43-II/803	Band 2	1933 - 1940
Monopole		
R 43-II/804	Band 2	Feb. 1933 - Jan. 1936
R 43-II/803a	Band 3	1936 - 1944

# Appendix C

## Appendix to Chapter 4

The Fiscal Multiplier -

Narrative Evidence from Interwar German Tax Changes

## C.1 Macro trends 1925-1939

Figure C.1: Gross Domestic Product

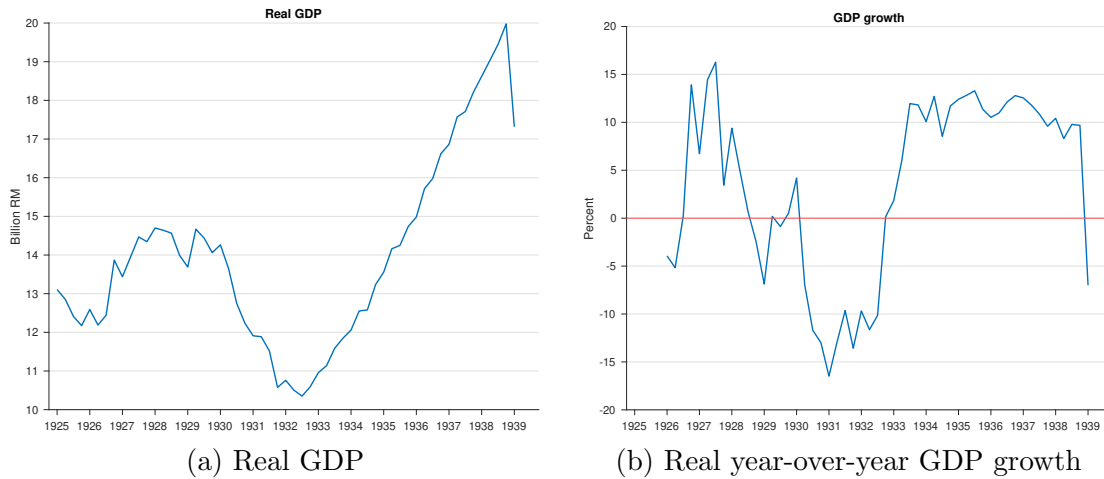


Figure C.2: Prices

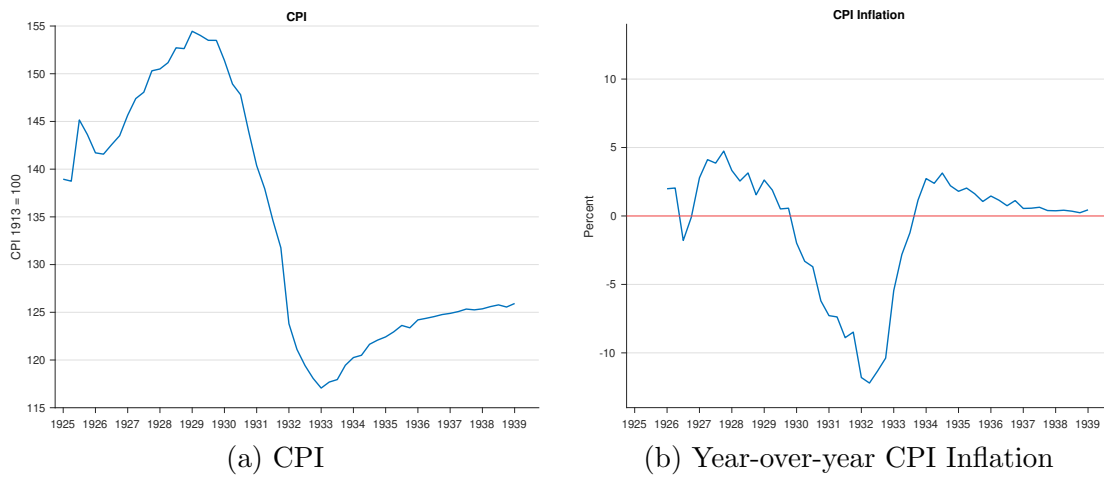




Figure C.3: Investment

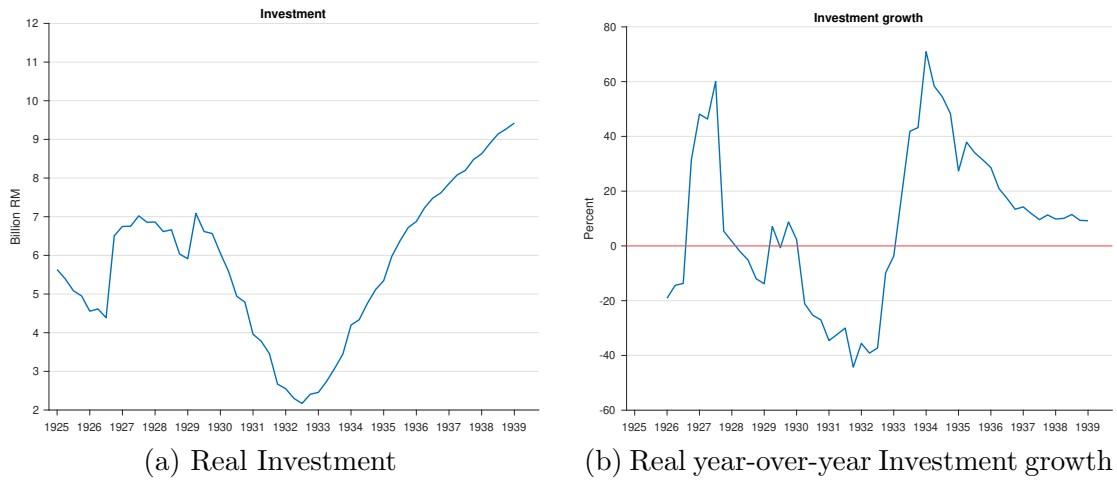


Figure C.4: Consumption

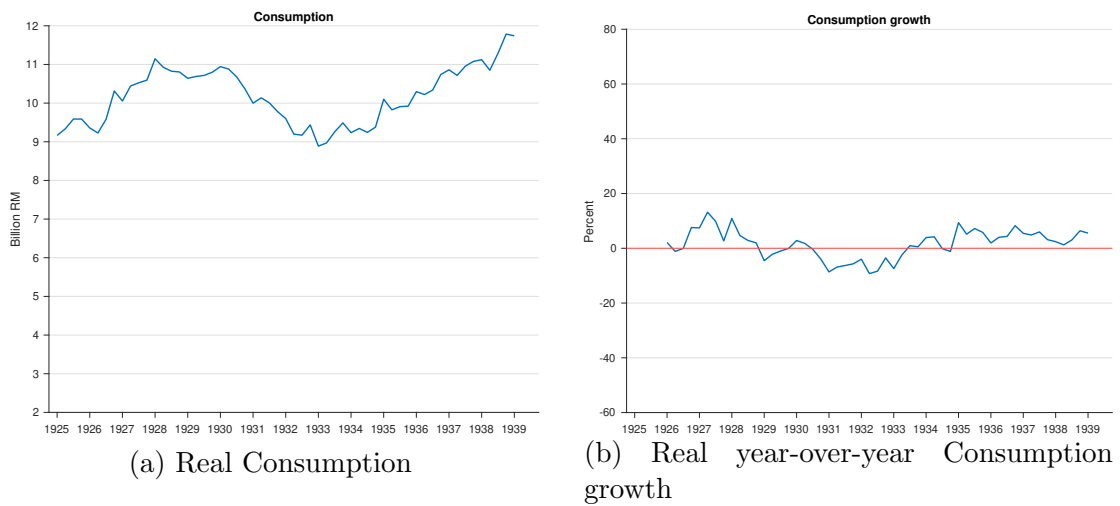
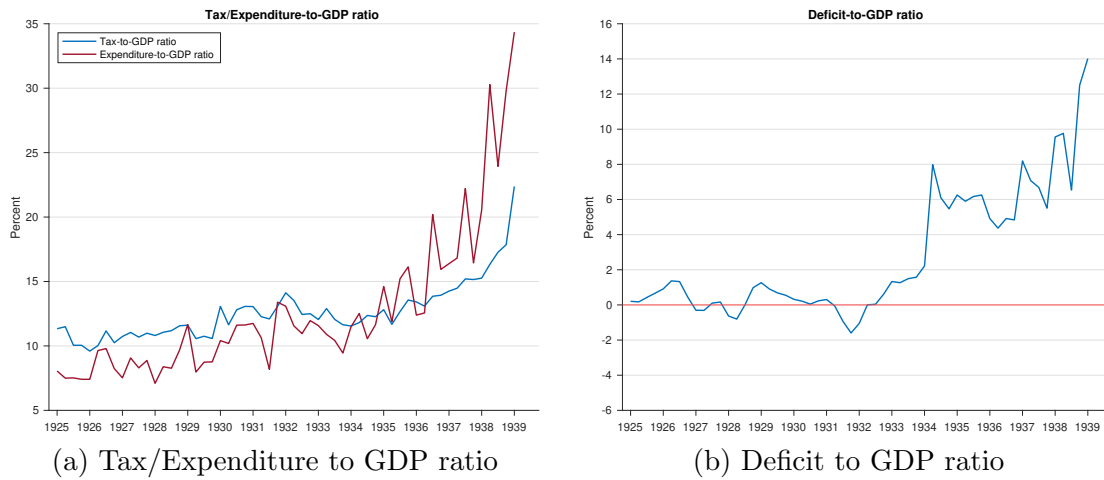


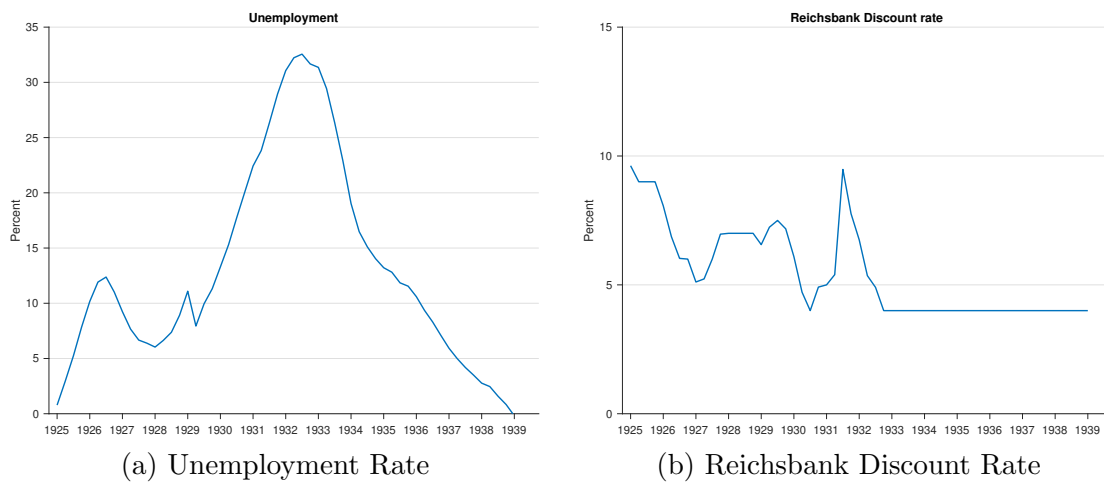
Figure C.5: Public Finance



(a) Tax/Expenditure to GDP ratio

(b) Deficit to GDP ratio

Figure C.6: Unemployment and Reichsbank Discount Rate



(a) Unemployment Rate

(b) Reichsbank Discount Rate

## C.2 Data Sources

Table C.1: Macro data sources

Data	Source
<b>Gross Domestic Product</b>	
Annual real GDP	Ritschl (2002b), B.9.1
Annual nominal GDP	Ritschl (2002b), B.5.1
Annual GDP deflator	See description below.
Quarterly real GDP	Ritschl (2002b), C.2.3
Quarterly GDP deflator	See description below.
Quarterly nominal GDP	See description below.
<b>Government</b>	
Tax changes and revenue effects	Narrative Record from Chapter 3
Quarterly nominal public receipts	Ritschl (2002b), A.6.5 - A.6.13 + A.6.17 plus UI contributions, s.a.
Quarterly nominal government spending	Ritschl (2002b), A.6.35, s.a.
Quarterly nominal government deficit	Ritschl (2002b), C.2.4, s.a.
<b>Other variables</b>	
CPI	Ritschl (2002b), C.2.5, s.a.
PPI for industrial commodities	Ritschl (2002b), C.2.13, s.a.
Reichsbank discount rate	See description below.
Monetary Base M0	Ritschl (2002b), C.2.11, s.a.
Investment	Ritschl (2002b), C.2.6, s.a.
Consumption	Ritschl (2002b), C.2.1, s.a.
Unemployment	See description below.
Imports	See description below.
Exports	See description below.
IPI	See description below.
Index of gross production value	See description below.

## **Annual GDP deflator**

Even though Ritschl (2002b) does not provide an annual GDP deflator, Ritschl and Spoerer (1997, Table 3, series XVI) already do. Since the series underlying the expenditure approach differ slightly in these sources, the annual GDP deflator is calculated following Ritschl and Spoerer (1997) by dividing nominal GDP by real GDP and multiplying by 100. The calculation is based on the revised series for nominal and real GDP in Ritschl (2002b, B.5.1, B.9.1). The resulting deflator does not significantly deviate from Ritschl and Spoerer (1997) until 1932.

## **Quarterly GDP deflator**

Annual GDP deflator from above, interpolated with quarterly CPI and PPI for industrial commodities from Ritschl (2002b, C.2.5, C.2.13) by Chow and Lin (1971) regression method.

## **Quarterly nominal GDP**

Derived from quarterly real GDP and quarterly GDP deflator from above.

## **Quarterly nominal public receipts**

The quarterly nominal public revenues result from the sum of gross revenues from taxes, the contribution of the *Reichsbahn* to the budget and the revenues from unemployment insurance, reduced by the redeemed tax vouchers. These data can be found in Ritschl (2002b, A.6.5 - A.6.13 + A.6.17) except for unemployment insurance contributions. The contributions to unemployment insurance together with the *Abgabe zur Arbeitslosenversicherung* can be found in the *Statistisches Jahrbuch für das Deutsche Reich*, various editions.

## **Reichsbank discount rate**

Quarterly average of daily Reichsbank discount rates from the *Konjunkturstatistisches Jahrbuch 1936* (p. 109), continued in the *Wochenbericht des Instituts für Konjunkturforschung* (Übersicht A).

## Unemployment rate

The unemployment rate is calculated as the share of the unemployed in the total of unemployed and employed persons. The unemployment figure is taken from the *Konjunkturstatistisches Jahrbuch 1936* (page 116), continued in the *Wochenbericht des Instituts für Konjunkturforschung* (Übersicht D), while the employment data are taken from (Ritschl, 2002b, C.1.7).

## Imports

Annual balance-of-payments real imports from from (Ritschl, 2002b, B.7.4), interpolated with quarterly imports of goods trade by Chow and Lin (1971) regression method. The latest figure is taken from the *Konjunkturstatistisches Jahrbuch 1936* (page 91), continued in the *Wochenbericht des Instituts für Konjunkturforschung* (Übersicht B).

## Exports

Annual balance-of-payments real imports from from (Ritschl, 2002b, B.7.3), interpolated with quarterly exports of goods trade by Chow and Lin (1971) regression method. The latest figure is taken from the *Konjunkturstatistisches Jahrbuch 1936* (page 93), continued in the *Wochenbericht des Instituts für Konjunkturforschung* (Übersicht B).

## Industrial production Index

The IPI figure is taken from the *Konjunkturstatistisches Jahrbuch 1936* (page 52, series 11), continued in the *Wochenbericht des Instituts für Konjunkturforschung* (Übersicht C).

## Gross production value Index

The index of gross production value is taken from the *Konjunkturstatistisches Jahrbuch 1936* (page 55, series 21), continued in the *Wochenbericht des Instituts für Konjunkturforschung* (Übersicht C).

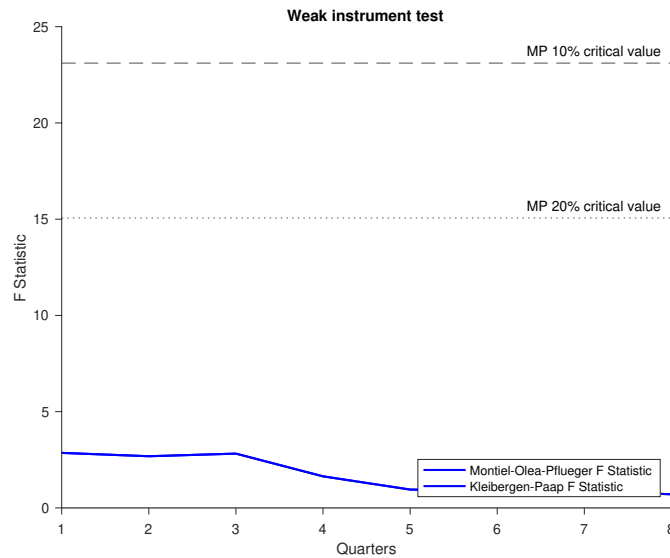
### C.3 The tax multiplier under the inclusion of Brüning's austerity

Table C.2: Granger causality tests

	Level		Difference	
	Test statistic	p-value	Test statistic	p-value
<i>Exogenous series</i>				
GDP	2.75	0.04	2.59	0.05
Unemployment	0.83	0.51	1.73	0.16
Reichsbank discount rate	1.74	0.16	2.72	0.04
Consumer prices	2.99	0.03	1.96	0.12
Government spending	1.04	0.40	1.17	0.34
<i>Endogenous series</i>				
GDP	0.57	0.68	0.60	0.66
Unemployment	0.53	0.71	0.56	0.70
Reichsbank discount rate	1.48	0.23	3.66	0.01
Consumer prices	1.49	0.22	2.60	0.05
Government spending	0.91	0.47	1.03	0.40

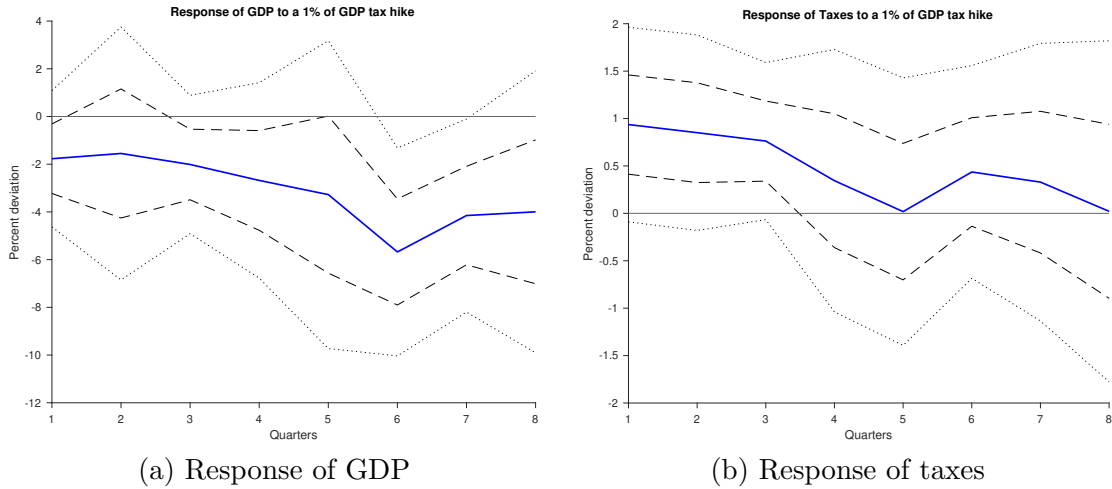
Note: In order to test the predictability of the two generated tax shock series, bivariate VAR Granger causality tests are carried out with the time series of interest. Since the local projections are in difference specification by nature, and the tax shocks are also to be interpreted as differences, the tests are run with the variables in both levels and differences. For the second column these are, row by row in levels, GDP, the unemployment rate, the discount rate of the Reichsbank, prices and government expenditure. For the third column, the differences are GDP growth, change in the unemployment rate, change in the Reichsbank discount rate, inflation and growth in government expenditure. The tests are run with 4 lags, while varying the lag lengths yields similar results. The null hypothesis is that the lags of the respective variable do not condition the respective tax series. A rejection, indicated by a low p-value, implies that the tax series is predictable by the respective variable.

Figure C.7: Dynamic of weak instrument tests  
(assumption: exogeneity of Brüning emergency decrees)



*Notes:* The figure shows a series of first-stage F-statistics from weak instrument tests over the 8-quarter horizon. In the presence of serial correlation or heteroskedasticity, or both, instruments are often erroneously inferred to be strong. Montiel-Olea and Pflueger (2013) propose an effective F-statistic and thresholds for different levels of bias. In the present case of one instrument, the narrative tax series  $\Delta\tau$ , for one endogenous variable, the change in tax revenue relative to past GDP  $(T_{t+j} - T_{t-1})/Y_{t-1}$ , the Montiel-Olea and Pflueger (2013) F-statistic is equivalent to the Kleibergen and Paap (2006) F-statistic. The dashed and dotted lines indicate the strength of the instrument at the 10 and 20 per cent worst case bias levels.

Figure C.8: IRFs of taxes and GDP  
(Assumption: exogeneity of Brüning's austerity)



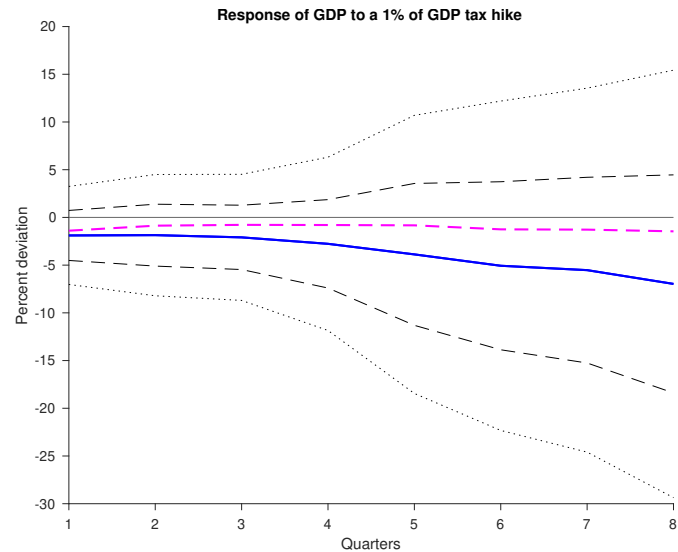
(a) Response of GDP

(b) Response of taxes

*Notes:* This figure plots the percentage response of (a) GDP with  $(Y_{t+j} - Y_{t-1})/Y_{t-1}$  and (b) taxes with  $(T_{t+j} - T_{t-1})/Y_{t-1}$  as the outcome variable over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.



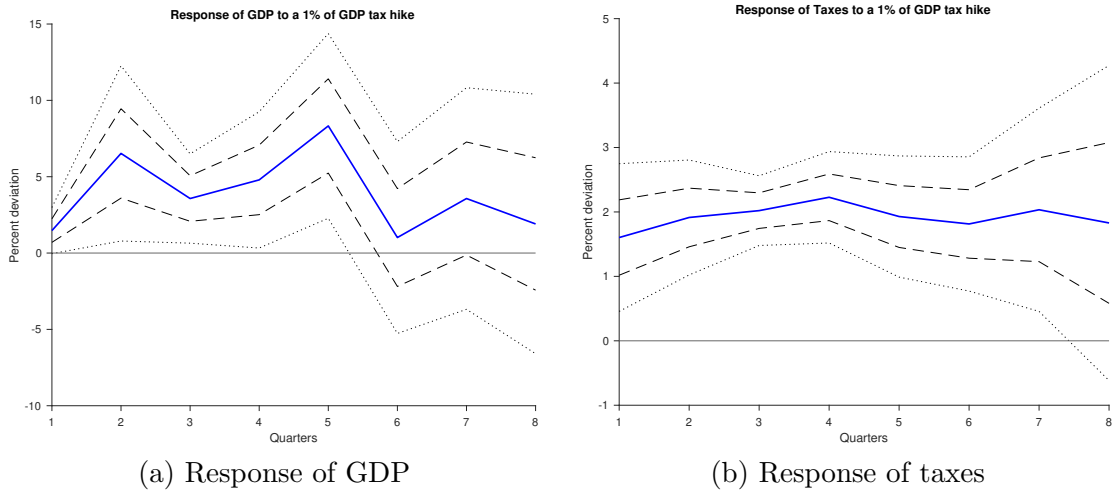
Figure C.9: Cumulative multiplier (including Young Plan dummy)  
(Assumption: exogeneity of Brüning's austerity)



*Notes:* This figure plots the baseline cumulative GDP multiplier in blue over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 along with 95 and 68 per cent standard error bands in dotted and dashed lines. The magenta lines represent the same cumulative GDP multiplier as a robustness check where we include a Young Plan dummy as control variable in the regression series.

## C.4 Baseline IRFs

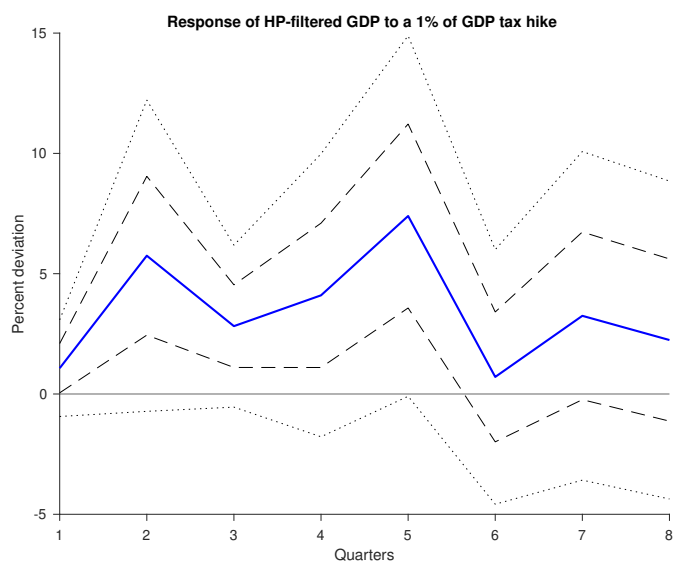
Figure C.10: IRFs of taxes and GDP



*Notes:* This figure plots the percentage response of (a) GDP with  $(Y_{t+j} - Y_{t-1})/Y_{t-1}$  and (b) taxes with  $(T_{t+j} - T_{t-1})/Y_{t-1}$  as the outcome variable over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

## C.5 IRF of HP-filtered GDP

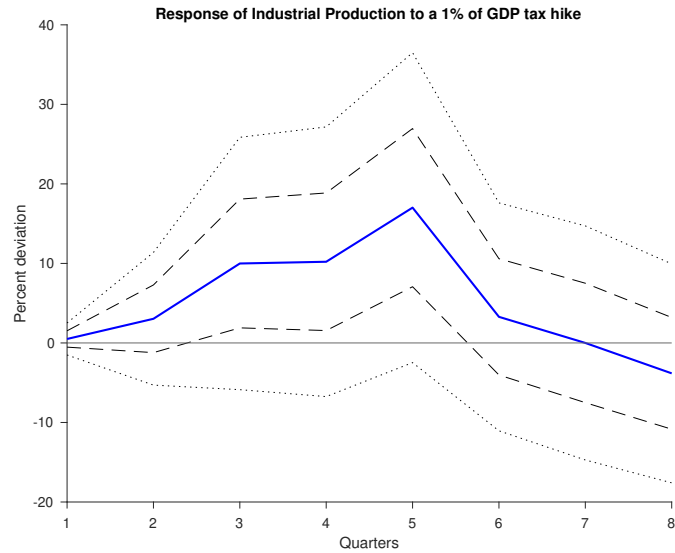
Figure C.11: Response of HP-filtered GDP



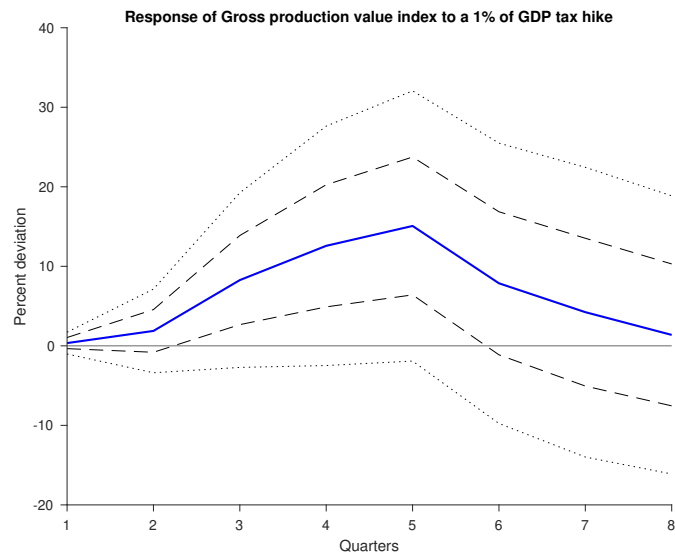
*Notes:* This figure plots the percentage response of Hodrick and Prescott (1997) filtered GDP over an 8-quarter horizon, with a smoothing parameter of  $\lambda = 1600$ , as a result of a 1 per cent of GDP tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

## C.6 IRFs to production indices

Figure C.12: IRFs of fiscal variables



(a) Response of industrial production

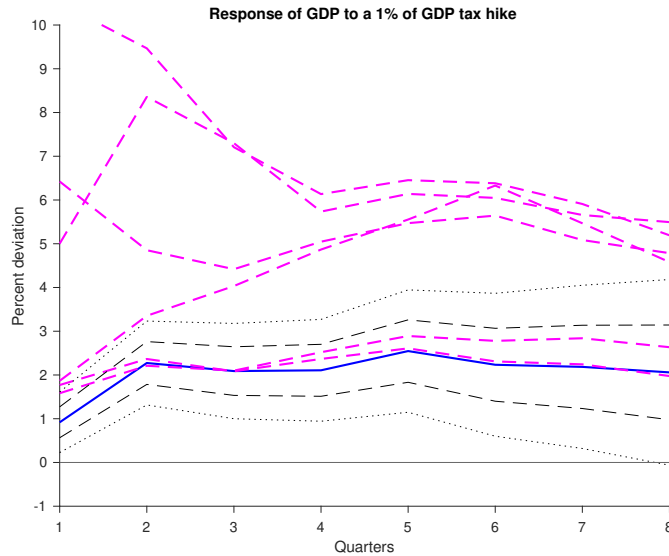


(b) Response of gross production value

*Notes:* This figure plots the percentage response of (a) industrial production and (b) the gross production value over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

## C.7 Sensitivity to lag choice

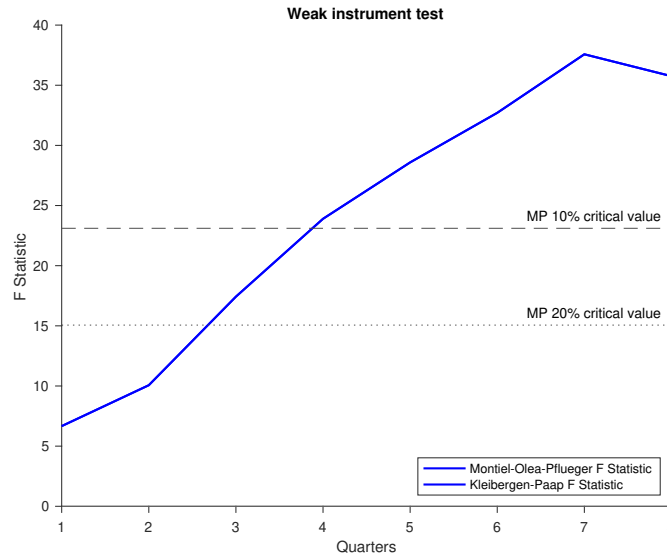
Figure C.13: Cumulative multiplier (lag sensitivity)



*Notes:* This figure plots the baseline cumulative GDP multiplier in blue over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 along with 95 and 68 per cent standard error bands in dotted and dashed lines. The lag choice for the controls and the instrument is denoted by  $(P|Q)$  and is  $(1, 0)$  in the baseline. The magenta lines represent the same cumulative GDP multiplier as a robustness check with the lag pairs (a)  $(1|1)$ , (b)  $(1|2)$ , (c)  $(2|1)$ , (d)  $(4|0)$  (e)  $(4|1)$ , or (f)  $(1|4)$  in the regression series.

## C.8 Instrument relevance

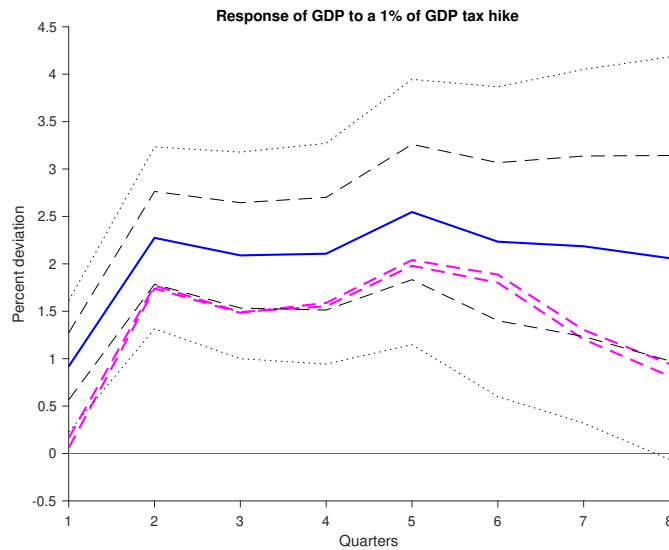
Figure C.14: Dynamic of weak instrument tests



*Notes:* The figure shows a series of first-stage F-statistics from weak instrument tests over the 8-quarter horizon. In the presence of serial correlation or heteroskedasticity, or both, instruments are often erroneously inferred to be strong. Montiel-Olea and Pflueger (2013) propose an effective F-statistic and thresholds for different levels of bias. In the present case of one instrument, the narrative tax series  $\Delta\tau$ , for one endogenous variable, the change in tax revenue relative to past GDP  $(T_{t+j} - T_{t-1})/Y_{t-1}$ , the Montiel-Olea and Pflueger (2013) F-statistic is equivalent to the Kleibergen and Paap (2006) F-statistic. The dashed and dotted lines indicate the strength of the instrument at the 10 and 20 per cent worst case bias levels.

## C.9 Controlling for fiscal policy

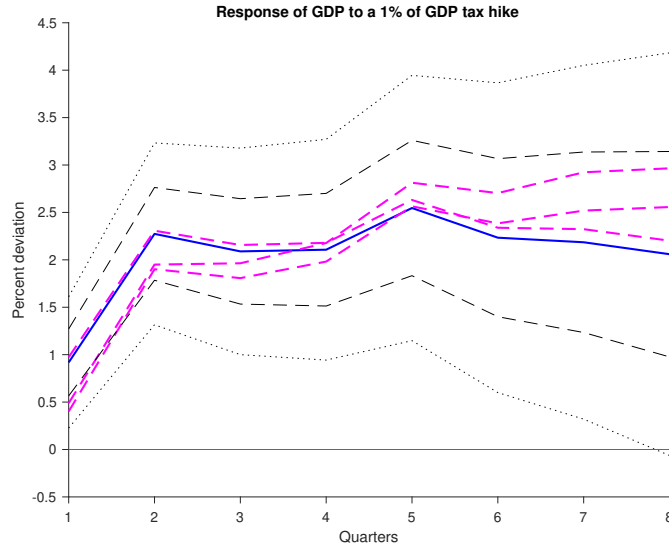
Figure C.15: Response of GDP to a 1% of GDP change in taxes



*Notes:* This figure plots the baseline cumulative GDP multiplier in blue over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 along with 95 and 68 per cent standard error bands in dotted and dashed lines. The magenta lines represent the same cumulative GDP multiplier as a robustness check where we include (a) government spending instead of the deficit, or (b) both, government spending and deficit as control variables in the regression series.

## C.10 Controlling for monetary policy

Figure C.16: Cumulative multiplier (monetary controls)

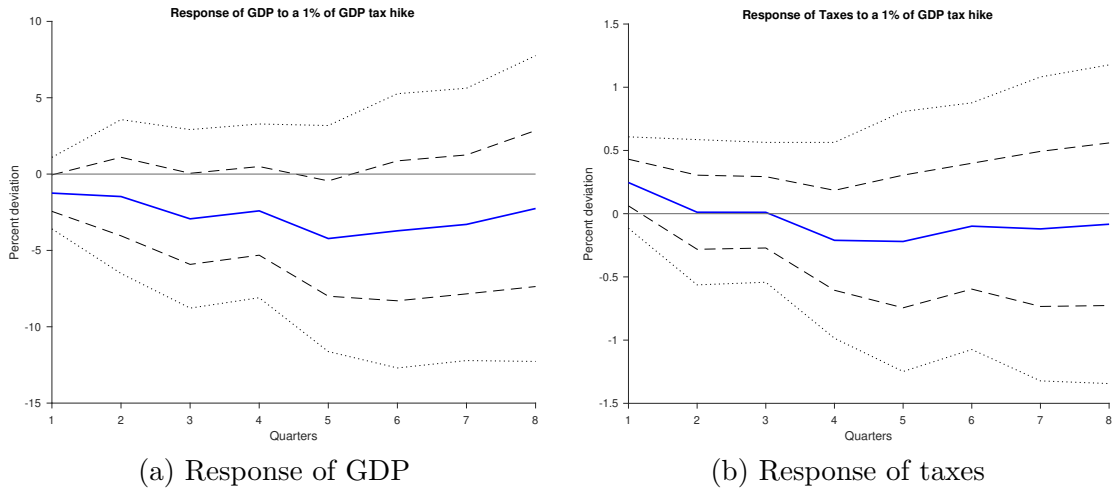


*Notes:* This figure plots the baseline cumulative GDP multiplier in blue over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 along with 95 and 68 per cent standard error bands in dotted and dashed lines. The magenta lines represent the same cumulative GDP multiplier as a robustness check where we include (a) the money supply, (b) the implicit GDP deflator and (c) both together as control variables in the regression series.



## C.11 IRF to endogenous tax shocks

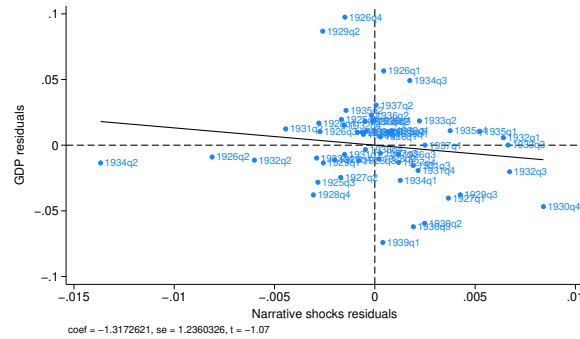
Figure C.17: IRFs of taxes and GDP in response to endogenous tax shocks



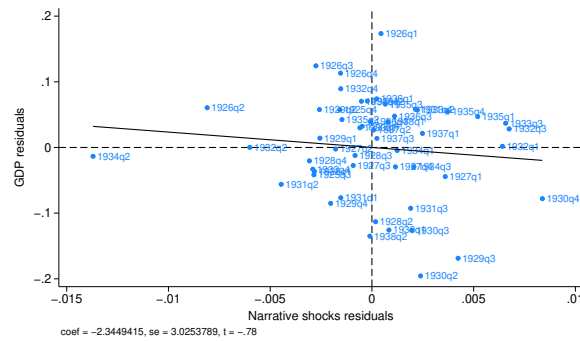
*Notes:* This figure plots the percentage response of (a) GDP with  $(Y_{t+j} - Y_{t-1})/Y_{t-1}$  and (b) taxes with  $(T_{t+j} - T_{t-1})/Y_{t-1}$  as the outcome variable over an 8-quarter horizon as a result of a 1 per cent of GDP endogenous tax increase using the local projections approach in equation 4.4. Confidence intervals are based on Newey and West (1987) standard errors and represent 95 and 68 per cent confidence intervals, dotted and dashed respectively.

## C.12 Partial association of endogenous series

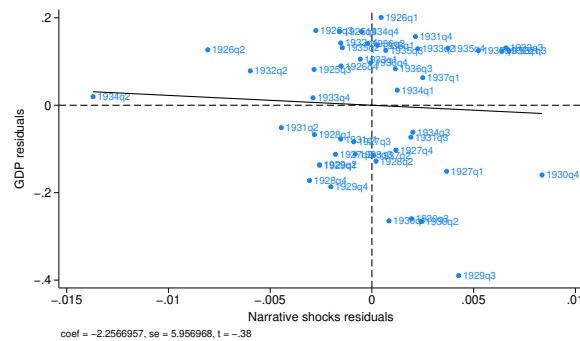
Figure C.18: Partial Association Scatter Plot of Real GDP and Endogenous Narrative Tax shocks



(a) Horizon  $h = 1$



(b) Horizon  $h = 4$

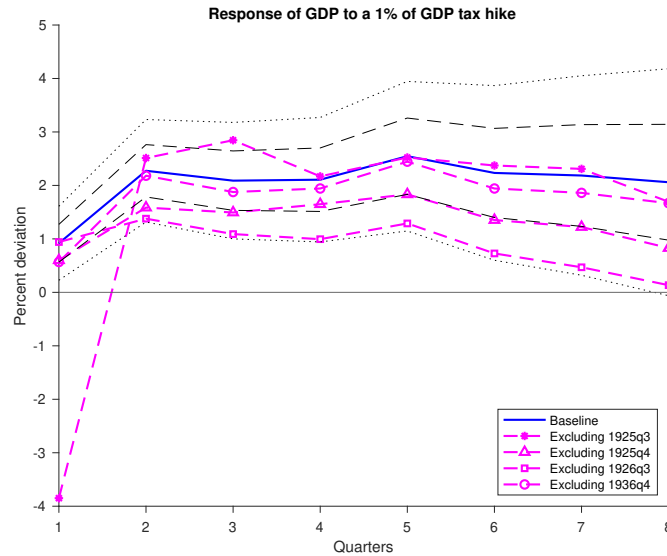


(c) Horizon  $h = 8$

*Notes:* The upper panels present the partial association between real GDP growth and the narrative shock series according to equation 4.4 for horizons 1, 4 and 8.

## C.13 Sensitivity to particular tax reforms

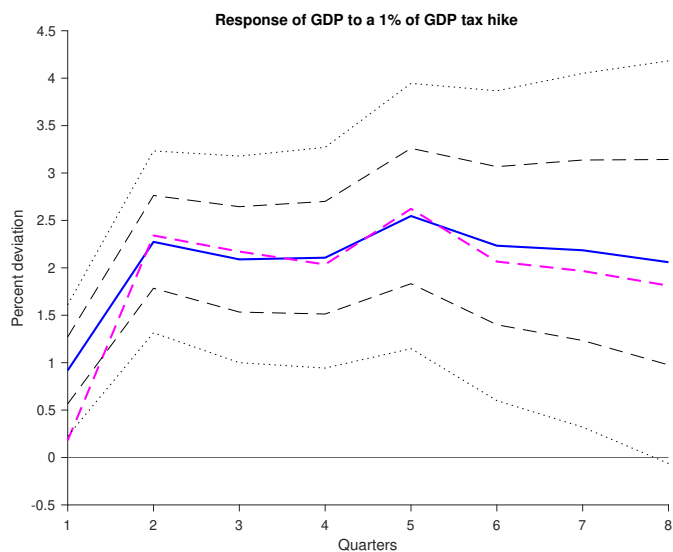
Figure C.19: Cumulative multiplier (dropping reforms)



*Notes:* This figure plots the baseline cumulative GDP multiplier in blue over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 along with 95 and 68 per cent standard error bands in dotted and dashed lines. The magenta lines represent the same cumulative GDP multiplier as a robustness check where we drop (a) 1925Q3, (b) 1925Q4, (c) 1926Q3, or (d) 1936Q4 as major reforms from the sample in the regression series.

## C.14 Excluding retroactive changes

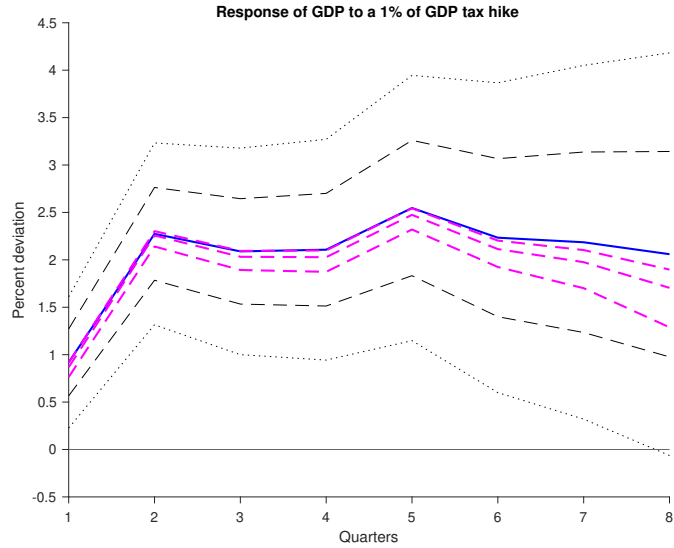
Figure C.20: Cumulative multiplier (excluding retroactive changes)



*Notes:* This figure plots the baseline cumulative GDP multiplier in blue over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 along with 95 and 68 per cent standard error bands in dotted and dashed lines. The magenta line represents the same cumulative GDP multiplier as a robustness check where we exclude all retroactive tax changes from the exogenous shock series in the regression series.

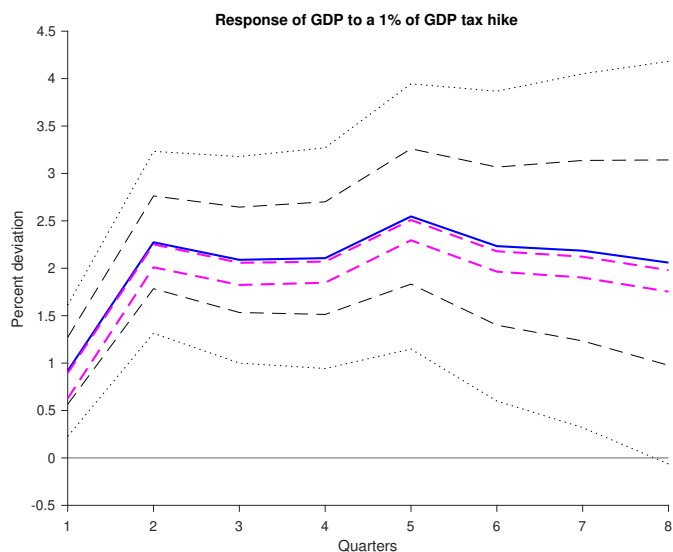
## C.15 Sensitivity to trends and dummies

Figure C.21: Cumulative multiplier (including linear and quadratic trends)



*Notes:* This figure plots the baseline cumulative GDP multiplier in blue over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 along with 95 and 68 per cent standard error bands in dotted and dashed lines. The magenta lines represent the same cumulative GDP multiplier as a robustness check where we include (a) a linear trend, (b) a quadratic trend, and (c) both in the regression series.

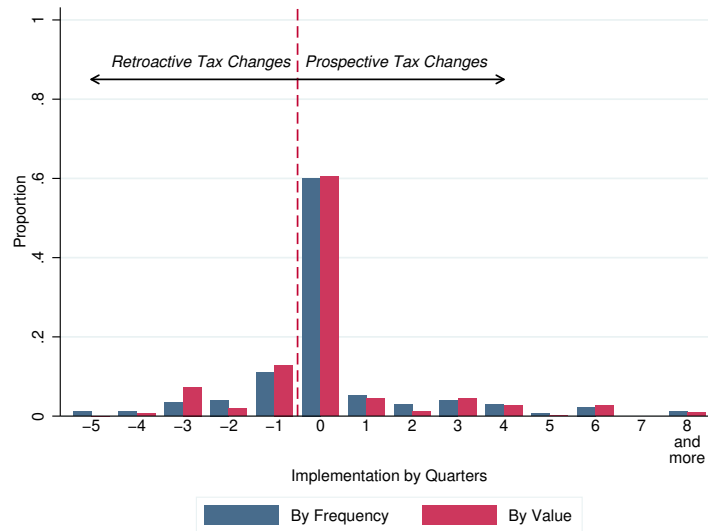
Figure C.22: Cumulative multiplier (including dummies)



*Notes:* This figure plots the baseline cumulative GDP multiplier in blue over an 8-quarter horizon as a result of a 1 per cent of GDP tax increase using the local projection instrument variable (LP-IV) approach in equation 4.3 along with 95 and 68 per cent standard error bands in dotted and dashed lines. The magenta lines represent the same cumulative GDP multiplier as a robustness check where we include (a) a Nazi dummy, and (b) a recession dummy as control variable in the regression series.

## C.16 Implementation relative to Announcement

Figure C.23: Proportion of tax changes by implementation relative to announcement



*Notes:* This figure shows the temporal distribution of the effectiveness of tax changes compared to their announcement. The blue bars show the percentage of the frequency of individual tax changes. The red bars, in turn, reflect the proportions based on the expected nominal tax revenue changes. The area to the left of the vertical dividing line shows measures that were implemented retroactively. To the right of this line are changes reflected which are implemented after their announcement.

## **C.17 Narrative Account of Tax Shocks in Germany, 1925-1939**

The following Table C.3 reproduces the tax changes already identified in Chapter 3 and presented in Table 3.2, together with the associated announcement, implementation and expiry dates, as well as the expected changes in revenue. The above tables provide alternative qualitative approaches to classifying the measures adopted. While Chapter 3 follows an amendment-by-amendment approach, using the motivation of each measure in isolation for classification, Chapter 4 follows a budget-by-budget approach. This attempts to classify measures in the context of overall fiscal policy objectives. The resulting classification is shown in the table below.



Table C.3: Narrative Tax Changes, budget-by-budget classification

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über die Deutsche Reichsbahn-Gesellschaft (Reichsbahngesetz)</b>	vom 30. August 1924	RGBl. 1924 II, p. 272						
<i>Anlage: Satzung der Deutschen Reichsbahn-Gesellschaft - §8 Reparationsschuldverschreibungen - für das 1. Reparationsjahr</i>			X	ET	30.08.1924	01.01.1925		200,00
<i>Anlage: Satzung der Deutschen Reichsbahn-Gesellschaft - §8 Reparationsschuldverschreibungen - für das 2. Reparationsjahr</i>			X	ET	30.08.1924	01.09.1925		395,00
<i>Anlage: Satzung der Deutschen Reichsbahn-Gesellschaft - §8 Reparationsschuldverschreibungen - für das 3. Reparationsjahr</i>			X	ET	30.08.1924	01.09.1926		-45,00
<i>Anlage: Satzung der Deutschen Reichsbahn-Gesellschaft - §8 Reparationsschuldverschreibungen - ab dem 4. Reparationsjahr</i>			X	ET	30.08.1924	01.09.1927		110,00
<b>Verordnung über das Außerkrafttreten der Börsensteuerverordnung</b>	vom 9. Dezember 1924	RGBl. 1924 I, p. 771	X	LR	09.12.1924	01.01.1925		-4,00
<b>Gesetz zur Überleitung der Einkommensteuer und Körperschaftsteuer in das regelmäßige Veranlagungsverfahren (Steuerüberleitungsgesetz)</b>	vom 29. Mai 1925	RGBl. 1925 I, p. 78	X	LR	29.05.1925	01.06.1925		-500,00
<b>Gesetz über die Aufwertung von Hypotheken und anderen Ansprüchen (Aufwertungsgesetz)</b>	vom 16. Juli 1925	RGBl. 1925 I, p. 117	X	LR	16.07.1925	15.07.1925		-20,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über Erhöhung der Bier- und Tabaksteuer</b>	vom 10. August 1925	RGBL. 1925 I, p. 245	X	LR	10.08.1925	01.10.1925		75,00
<b>Körperschaftsteuergesetz</b>	vom 10. August 1925	RGBL. 1925 I, p. 208	X	LR	10.08.1925	01.01.1925		8,00
<b>Gesetz über Vermögen- und Erbschaftsteuer</b>	vom 10. August 1925	RGBL. 1925 I, p. 233						
<i>Artikel I - Vermögensteuer</i>			X	LR	10.08.1925	01.01.1925		24,00
<i>Artikel II - Erbschaftsteuer</i>			X	LR	10.08.1925	01.01.1925		-100,00
<b>Gesetz zur Änderung der Verkehrsteuern und des Verfahrens</b>	vom 10. August 1925	RGBL. 1925 I, p. 241						
<i>Artikel I - Gesellschaftsteuer</i>			X	LR	10.08.1925	01.09.1925		-4,00
<i>Artikel I - Börsenumsatzsteuer</i>			X	LR	10.08.1925	01.09.1925		-54,00
<i>Artikel I - Aufsichtsratssteuer</i>			X	LR	10.08.1925	01.01.1925		-8,00
<i>Artikel I - Wertpapiersteuer</i>			X	LR	10.08.1925	01.09.1925		-2,00
<i>Artikel II - Grunderwerbsteuer</i>			X	LR	10.08.1925	01.09.1925		-10,00
<i>Artikel III - Wechselsteuer</i>			X	LR	10.08.1925	01.09.1925		-15,00
<i>Artikel IV - Allgemeine Umsatzsteuer</i>			X	LR	10.08.1925	01.10.1925		-70,00
<i>Artikel IV - Hersteller und Kleinhandelssteuer</i>			X	LR	10.08.1925	01.10.1925		-10,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz zur Änderung von Verbrauchssteuern</b>	vom 10. August 1925	RGBl. 1925 I, p. 248						
<i>Artikel I - Weinsteuer</i>			X	LR	10.08.1925	01.08.1925		-15,00
<i>Artikel II - Zündwarensteuer</i>			X	LR	10.08.1925	01.10.1925		1,40
<i>Artikel III - Salzsteuer</i>			X	LR	10.08.1925	01.10.1925		8,50
<b>Gesetz über Zolländerungen</b>	vom 17. August 1925	RGBl. 1925 I, p. 261	X	LR	17.08.1925	01.09.1925	31.07.1927	80,00
<b>Gesetz über die Senkung der Lohnsteuer</b>	vom 19. Dezember 1925	RGBl. 1925 I, p. 469	X	IL	19.12.1925	01.01.1926		-237,00
<b>Dritte Durchführungsverordnung zum Aufbringungsgesetze</b>	vom 12. Januar 1926	RGBl. 1926 II, p. 101	X	ET	12.01.1926	01.01.1926		125,00
<b>Gesetz zur Änderung der Verordnung über Erwerbslosenfürsorge</b>	vom 17. Januar 1926	RGBl. 1926 I, p. 89	N	SD	17.01.1926	01.01.1926		28,80
<b>Festsetzung eines einheitlichen Beitrags zur Erwerbslosenfürsorge für das ganze Reichsgebiet</b>	vom 25. Januar 1926	RABl. 1926 p. 29	N	DR	25.01.1926	01.02.1926		192,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über Steuermilderungen zur Erleichterung der Wirtschaftslage</b>	vom 31. März 1926	RGBL. 1926 I, p. 185						
<i>Artikel II - Senkung der Umsatzsteuer</i>			N	SS	31.03.1926	01.04.1926		-276,00
<i>Artikel II - Aufhebung der Hersteller- und Kleinhandelssteuer</i>			N	SS	31.03.1926	01.04.1926		-92,00
<i>Artikel VI - Biersteuer</i>			N	SS	31.03.1926	01.01.1927		100,00
<i>Artikel VII- Weinsteuer</i>			N	SS	31.03.1926	01.04.1926		-55,00
<i>Artikel VIII - Schaumweinsteuer</i>			N	SS	31.03.1926	01.07.1926		4,00
<i>Artikel IX - Salzsteuer</i>			N	SS	31.03.1926	01.04.1926		-15,50
<b>Gesetz zur Änderung des Kraftfahrzeugsteuergesetzes</b>	vom 15. Mai 1926	RGBL. 1926 I, p. 224	N	SD	15.05.1926	15.06.1926		52,00
<b>Verordnung über Zolländerungen</b>	vom 30. Juli 1926	RGBL. 1926 I, p. 428	X	IL	30.07.1926	01.08.1926	31.03.1927	310,00
<b>Verordnung über Vorauszahlungen nach dem Aufbringungsgesetze für das Kalenderjahr 1927 (Vierte Durchführungsverordnung zum Aufbringungsgesetze)</b>	vom 21. Dezember 1926	RGBL. 1926 II, p. 805	X	ET	21.12.1926	01.01.1927		125,00
<b>Gesetz über Änderungen des Zuckersteuergesetzes</b>	vom 15. Juli 1927	RGBL. 1927 I, p. 179	N	DM	15.07.1927	01.08.1927		-125,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung</b>	vom 16. Juli 1927	RGBL. 1927 I, p. 187	N	SD	16.07.1927	01.10.1927		8,40
<b>Verordnung über die Aufbringungssätze für 1926 bis 1928 (Achte Durchführungsverordnung zum Aufbringungsgesetze)</b>	vom 19. Dezember 1927	RGBL. 1928 II, p. 10	X	ET	19.01.1928	01.01.1928		50,00
<b>Kraftfahrzeugsteuergesetz</b>	vom 21. Dezember 1927	RGBL. 1927 I, p. 509	N	SD	21.12.1927	01.04.1928	01.04.1931	30,00
<b>Gesetz zur Änderung des Einkommensteuergesetzes</b>	vom 22. Dezember 1927	RGBL. 1927 I, p. 485	N	DM	22.12.1927	01.01.1928		-210,00
<b>Verordnung über die Einheitsbewertung und Vermögensteuerveranlagung 1928 (Rbew. VSt. VO. 1928)</b>	vom 9. Juni 1928	RGBL. 1928 I, p. 165	N	DR	09.06.1928	01.01.1928		50,00
<b>Zweites Gesetz zur Änderung des Einkommensteuergesetzes</b>	vom 23. Juli 1928	RGBL. 1928 I, p. 290	N	DM	23.07.1928	01.10.1928		-150,00
<b>Verordnung über Beförderungsteuer im Personenverkehre</b>	vom 26. Oktober 1928	RGBL. 1928 I, p. 384	X	ET	26.10.1928	01.10.1928		10,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung über die Aufbringungssätze für das Kalenderjahr 1929. (Elfte Durchführungsverordnung zum Aufbringungsgesetze.)</b>	vom 3. Januar 1929	RGBL. 1929 II, p. 32	X	ET	03.01.1929	01.01.1929		0,00
<b>Verordnung über die Steuerbefreiung der Reichsanleihe 1929</b>	vom 17. Mai 1929	RGBL. 1929 I, p. 95	N	DR	17.05.1929	01.04.1929		-10,00
<b>Gesetz zur Änderung des Gesetzes über das Branntweinmonopol</b>	vom 21. Mai 1929	RGBL. 1929 I, p. 99	N	DR	21.05.1929	01.06.1929		90,00
<b>Gesetz zur Änderung des Einkommensteuer- und Körperschaftsteuergesetzes</b>	vom 29. Juni 1929	RGBL. 1929 I, p. 123	N	DR	29.06.1929	01.01.1930		-40,00
<b>Gesetz über die Feststellung des Reichshaushaltsplans für das Rechnungsjahr 1929</b>	vom 29. Juni 1929	RGBL. 1929 II, p. 444						
<i>§9 - Vermögensteuer</i>			N	DR	29.06.1929	01.01.1929	31.12.1929	40,00
<i>REVERSE: §9 - Vermögensteuer</i>			N	DR	29.06.1929	01.01.1930		-40,00
<b>Gesetz zur Änderung des Wechselsteuergesetzes</b>	vom 29. Juni 1929	RGBL. 1929 I, p. 124	N	DR	29.06.1929	01.08.1929		-2,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz zur Änderung des Gesetzes über Arbeitsvermittlung und Arbeitslosenversicherung</b>	vom 12. Oktober 1929	RGBL. 1929 I, p. 129	N	DR	12.10.1929	01.11.1929		1,00
<b>Gesetz zur Änderung des Tabaksteuergesetzes</b>	vom 22. Dezember 1929	RGBL. 1929 I, p. 234	N	DR	22.12.1929	01.01.1930		220,00
<b>Gesetz über die befristete Erhöhung des Beitrags in der Arbeitslosenversicherung</b>	vom 27. Dezember 1929	RGBL. 1929 I, p. 244	N	DR	27.12.1929	01.01.1930	30.06.1930	140,00
<b>Verordnung über die Jahresleistungen nach dem Aufbringungsgesetze für das Kalenderjahr 1930 (Dreizehnte Durchführungsverordnung zum Aufbringungsgesetze)</b>	vom 9. Januar 1930	RGBL. 1930 II, p. 14	X	ET	09.01.1930	01.01.1930		0,00
<b>Zündwarenmonopolgesetz</b>	vom 29. Januar 1930	RGBL. 1930 I, p. 11						
<i>§14 Berechnung und Verteilung des Gewinns; §37 Abgabe der Groß-Einkaufsgesellschaft Deutscher Konsumvereine und der Großeinkaufs- und Produktions-Aktiengesellschaft Deutscher Konsumvereine (Monopolausgleich); §47 Zündwarensondersteuer</i>			N	SS	29.01.1930	01.06.1930		4,00
<i>§49 - Zündwarensteuer</i>			N	SS	29.01.1930	01.06.1930		-1,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung über Inkraftsetzung der Zollerhöhungen für Kaffee und Tee</b>	vom 20. Februar 1930	RZBl. 1930, p. 61 ff						
<i>Zollerhöhung auf Kaffee und Tee</i>			N	DR	20.02.1930	05.03.1930		47,00
<i>Nachzoll auf Kaffee und Tee</i>			N	DR	20.02.1930	05.03.1930		13,00
<i>REVERSE: Nachzoll auf Kaffee und Tee</i>			N	DR	20.02.1930	01.04.1931		-13,00
<b>Gesetz zur Änderung des Reichsbahngesetzes</b>	vom 13. März 1930	RGBL. 1930 II, p. 359			13.03.1930	01.10.1929		0,00
<b>Gesetz über die Erhebung der Aufbringungsumlage für das Rechnungsjahr 1930</b>	vom 15. April 1930	RGBL. 1930 I, p. 141	N	SS	15.04.1930	01.04.1931		-50,00
<b>Gesetz zur Änderung des Biersteuergesetzes</b>	vom 15. April 1930	RGBL. 1930 I, p. 136	N	DR	15.04.1930	01.05.1930		150,00
<b>Gesetz zur Änderung des Tabak- und Zuckersteuergesetzes</b>	vom 15. April 1930	RGBL. 1930 I, p. 135						
<i>Artikel I - Tabaksteuer</i>			N	DR	15.04.1930	01.05.1930	30.04.1931	16,00
<i>REVERSE: Zahlungsfristenänderung</i>			N	DR	15.04.1930	30.04.1931		-16,00
<i>Artikel II - Zuckersteuer</i>			N	DR	15.04.1930	01.05.1930	30.04.1931	11,00



Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>REVERSE: Zahlungsfristenänderung</i>			N	DR	15.04.1930	30.04.1931		-11,00
<b>Gesetz über Zolländerungen</b>	vom 15. April 1930	RGBL. 1930 I, p. 131						
<i>Artikel 1 - Zolländerung Mineralöle</i>			N	DR	15.04.1930	18.04.1930		65,00
<i>Artikel 3 - Ausgleichsteuer auf Mineralöle (Mineralölsteuer)</i>			N	DR	15.04.1930	01.05.1930		12,00
<i>Artikel 4 - Senkung des Zuschlags zur Kraftfahrzeugsteuer</i>			N	DR	15.04.1930	01.04.1930	31.03.1931	-6,00
<b>Mineralwassersteuergesetz</b>	vom 15. April 1930	RGBL. 1930 I, p. 139	N	DR	15.04.1930	16.05.1930		35,00
<b>Gesetz zur Änderung des Gesetzes über das Branntweinmonopol</b>	vom 15. April 1930	RGBL. 1930 I, p. 138	N	DR	15.04.1930	20.05.1930		0,50
<b>Gesetz zur Änderung des Biersteuergesetzes</b>	vom 15. April 1930	RGBL. 1930 I, p. 137	N	DR	15.04.1930	01.04.1930		137,00
<b>Verordnung des Reichspräsidenten zur Behebung finanzieller, wirtschaftlicher und sozialer Notstände</b>	vom 26. Juli 1930	RGBL. 1930 I, p. 311						
<i>Erster Abschnitt Zweiter Titel - Reichshilfe der Personen des öffentlichen Dienstes</i>			N	DR	26.07.1930	01.09.1930		202,50
<i>Erster Abschnitt Dritter Titel - Zuschlag zur Einkommensteuer für die Einkommen von mehr als achttausend Reichsmark</i>			N	DR	26.07.1930	01.04.1930	31.03.1932	58,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>Erster Abschnitt Vierter Titel - Zuschlag zur Einkommensteuer der Ledigen</i>			N	DR	26.07.1930	01.09.1930	31.03.1932	163,50
<i>Erster Abschnitt Sechster Titel - Tabaksteuer</i>			N	DR	26.07.1930	01.08.1930	31.03.1931	48,00
<i>REVERSE: Zahlungsfristenänderung</i>			N	DR	26.07.1930	01.04.1931		-48,00
<i>Vierter Abschnitt Erster Teil Artikel 2 - Erhöhung des Beitragssatz zur Arbeitslosenversicherung von 3,5% auf 4,5%</i>			N	DR	26.07.1930	01.08.1930		291,00
<b>Verordnung über Änderung des Zollsatzes für Weizen und Spelz</b>	vom 26. September 1930	RGBl. 1930 I, p. 458	N	DR	26.09.1930	28.09.1930		20,00
<b>Verordnung über den Beitrag zur Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung</b>	vom 30. September 1930	RGBl. 1930 I, p. 458	N	DR	30.09.1930	06.10.1930		528,00
<b>Verordnung über die Aufhebung des Steuerabzugs vom Kapitalertrag und der beschränkten Steuerpflicht bei festverzinslichen Wertpapieren</b>	vom 16. Oktober 1930	RGBl. 1930 I, p. 464	N	DR	16.10.1930	03.01.1931		-60,00
<b>Verordnung über Änderung der Zollsätze für Weizen, Spelz und Gerste</b>	vom 25. Oktober 1930	RGBl. 1930 I, p. 480	N	DR	25.10.1930	26.10.1930		26,00
<b>Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen</b>	vom 1. Dezember 1930	RGBl. 1930 I, p. 517						

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>Zweiter Teil Kapitel II §7 - Aufhebung der Reichshilfe der Personen des öffentlichen Dienstes</i>			N	DR	01.12.1930	01.02.1931		-202,50
<i>Zweiter Teil Kapitel III - Tabaksteuer</i>			N	DR	01.12.1930	01.01.1931		167,00
<i>Dritter Teil Kapitel I - Erhöhung der Vermögenssteuerfreigrenze auf 20000 Reichsmark</i>			N	DR	01.12.1930	01.01.1931		-18,00
<i>Dritter Teil Kapitel I - Landwirtschaftliche Einheitsbesteuerung</i>			N	DR	01.12.1930	01.12.1930		-40,00
<i>Dritter Teil Kapitel V - Umsatzsteuerbefreiung von Steuerpflichtigen von nicht mehr als 5000 RM Umsatz jährlich</i>			N	DR	01.12.1930	01.07.1931		-40,00
<i>Dritter Teil Kapitel V - Einschränkung des Zwischenhandelsprivilegs bei der Umsatzsteuer</i>			N	DR	01.12.1930	01.01.1931		16,00
<b>Zweite Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen</b>	vom 5. Juni 1931	RGBl. 1931 I, p. 279						
<i>Zweiter Teil Kapitel II - Zuckersteuer</i>			N	DR	05.06.1931	16.06.1931		146,67
<i>Zweiter Teil Kapitel III - Mineralölzölle</i>			N	DR	05.06.1931	29.05.1931		100,00
<i>Zweiter Teil Kapitel VII - Statistische Abgabe</i>			N	DR	05.06.1931	01.07.1931		3,00
<i>Dritter Teil Kapitel III - Krisensteuer</i>			N	DR	05.06.1931	01.07.1931	30.06.1932	496,80
<i>Vierter Teil Kapitel I - Lohnsteuererstattungen</i>			N	DR	05.06.1931	01.01.1931		80,00
<b>Verordnung über monatliche Voranmeldungen und monatliche Vorauszahlungen bei der Umsatzsteuer</b>	vom 25. Juni 1931	RGBl. 1931 I, p. 345	N	DR	25.06.1931	10.11.1931		115,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Hoover moratorium - London Protocol of August 11, 1931</b>	vom 11. August 1931		N	SS	11.08.1931	01.07.1931		-590,00
<b>Vierte Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen und zum Schutze des inneren Friedens</b>	vom 8. Dezember 1931	RGBL. 1931 I, p. 699						
<i>Erster Teil Kapitel II §4 - Ganz oder teilweiser Erlass der Beförderungssteuer für den Personenverkehr</i>			N	DR	08.12.1931	09.12.1931		-30,00
<i>Vierter Teil Kapitel III - Mineralwassersteuer</i>			N	DR	08.12.1931	01.01.1932	31.12.1933	-12,00
<i>Siebenter Teil Kapitel I - Umsatzsteuer</i>			N	DR	08.12.1931	01.01.1932		700,00
<i>Siebenter Teil Kapitel III - Reichsfluchtsteuer</i>			N	DR	08.12.1931	10.12.1931	31.12.1932	0,60
<b>Verordnung des Reichspräsidenten über Biersteuersenkung, Realsteuersperre 1932 und sonstige steuerliche, wirtschafts- und zollpolitische Maßnahmen</b>	vom 19. März 1932	RGBL. 1932 I, p. 135						
<i>Erster Teil - Biersteuersenkung</i>			N	DM	19.03.1932	22.03.1932		-105,00
<i>Dritter Teil - Kraftfahrzeugsteuer</i>			N	DM	19.03.1932	01.04.1932	30.04.1933	-9,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung des Reichspräsidenten über die Anpassung der Vermögensteuer, Erbschaftsteuer und Grunderwerbsteuer an die seit dem 1. Januar 1931 eingetretenen Wertrückgänge</b>	vom 12. Mai 1932	RGBL. 1932 I, p. 192	N	DM	12.05.1932	01.04.1932		-80,00
<b>Verordnung des Reichspräsidenten über Maßnahmen zur Erhaltung der Arbeitslosenhilfe und der Sozialversicherung sowie zur Erleichterung der Wohlfahrtslasten der Gemeinden</b>	vom 14. Juni 1932	RGBL. 1932 I, p. 273						
<i>Zweiter Teil Kapitel II - Abgabe zur Arbeitslosenhilfe</i>			N	DR	14.06.1932	01.07.1932		533,33
<i>Dritter Teil Kapitel II - Salzsteuer</i>			N	DR	14.06.1932	16.07.1932		70,00
<i>Dritter Teil Kapitel III - Aufhebung der Krisenlohnsteuer</i>			N	DR	14.06.1932	01.07.1932		-156,00
<i>Dritter Teil Kapitel III - Weitererhebung der Krisensteuer der Veranlagten</i>			N	DR	14.06.1932	01.04.1932	31.03.1933	45,00
<i>REVERSE: Weitererhebung</i>			N	DR	14.06.1932	31.03.1933		-45,00
<i>Dritter Teil Kapitel I Artikel 1 - Aufhebung der Umsatzsteuerbefreiung von Steuerpflichtigen von nicht mehr als 5000 RM Umsatz jährlich</i>			N	DR	14.06.1932	01.07.1932		130,00
<i>Dritter Teil Kapitel IV - Aufbringungsumlage 1932</i>			N	SS	14.06.1932	01.04.1932		-130,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung des Reichspräsidenten zur Belebung der Wirtschaft</b>	vom 4. September 1932	RGBL. 1932 I, p. 425						
<i>Erster Teil Kapitel I Zweiter Abschnitt - Steuergutscheine für Steuerzahlungen</i>			N	SS	04.09.1932	01.04.1934	31.03.1939	-316,60
<i>Erster Teil Kapitel I Dritter Abschnitt - Steuergutscheine für Mehrbeschäftigung</i>			N	SS	04.09.1932	01.04.1934	31.03.1939	-20,80
<b>Verordnung über Mineralölsteuer</b>	vom 24. Dezember 1932	RGBL. 1932 I, p. 578	N	DR	24.12.1932	01.01.1933		7,60
<b>Gesetz über Änderung des Kraftfahrzeugsteuergesetzes</b>	vom 10. April 1933	RGBL. 1933 I, p. 192	N	DM	10.04.1933	20.04.1933		-7,50
<b>Gesetz über Erhöhung der Rennwettsteuer</b>	vom 10. April 1933	RGBL. 1933 I, p. 191	N	SD	10.04.1933	01.05.1933		12,00
<b>Verordnung über die Erhebung einer Ausgleichsabgabe auf Fette</b>	vom 13. April 1933	RGBL. 1933 I, p. 206	N	SD	13.04.1933	01.05.1933		150,00
<b>Gesetz über die Höhe der Aufbringungsumlagen</b>	vom 30. Mai 1933	RGBL. 1933 I, p. 315			30.05.1933	01.04.1933		
<b>Gesetz über Ablösung der Kraftfahrzeugsteuer</b>	vom 31. Mai 1933	RGBL. 1933 I, p. 315						

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>Artikel I - Ablösung der Kraftfahrzeugsteuer</i>			N	SD	31.05.1933	15.06.1933	31.03.1934	113,75
<i>REVERSE: Ablösung</i>			N	SD	31.05.1933	31.03.1934		-113,75
<i>Artikel I - Kraftfahrzeugsteuerbefreiung durch einmalige Ablösung</i>			N	SD	31.05.1933	15.06.1933		-50,00
<b>Gesetz zur Verminderung der Arbeitslosigkeit</b>	vom 1. Juni 1933	RGBL. 1933 I, p. 323						
<i>Abschnitt III - Freiwillige Spende zur Förderung der nationalen Arbeit</i>			N	SD	01.06.1933	01.07.1933	31.03.1934	150,00
<i>REVERSE: Arbeitspendengesetz</i>			N	SD	01.06.1933	31.03.1934		-150,00
<i>Abschnitt IV - Überführung weiblicher Arbeitskräfte in die Hauswirtschaft</i>			N	DM	01.06.1933	01.07.1933		-40,00
<i>Abschnitt V - Förderung der Eheschließungen</i>			N	DM	01.06.1933	01.07.1933		135,00
<b>Gesetz zur Regelung der Warenhausteuer und der Filialsteuer für das Jahr 1933</b>	vom 15. Juli 1933	RGBL. 1933 I, p. 492	N	SS	15.07.1933	01.04.1933		70,00
<b>Zweites Gesetz zur Verminderung der Arbeitslosigkeit</b>	vom 21. September 1933	RGBL. 1933 I, p. 651						
<i>Abschnitt II - Senkung der landwirtschaftlichen Grundsteuer</i>			N	DM	21.09.1933	01.10.1933	31.03.1935	-100,00
<i>REVERSE: Senkung</i>			N	DM	21.09.1933	31.03.1935		100,00
<i>Abschnitt III - Senkung der Umsatzsteuer für die Landwirtschaft</i>			N	DM	21.09.1933	01.10.1933		-60,00
<i>Abschnitt V - Senkung der Grundsteuer für Neuhausbesitz</i>			N	DM	21.09.1933	01.10.1933	31.03.1935	-33,34

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>REVERSE: Senkung</i>			N	DM	21.09.1933	31.03.1935		33,34
<b>Gesetz über Änderung der Arbeitslosenhilfe</b>	vom 22. September 1933	RGBl. 1933 I, p. 656	N	DM	22.09.1933	01.10.1933		-48,00
<b>Rderl. des RdF Nr. 835. Ziviler Luftschutz</b>	vom 10. Oktober 1933	RStBl. 1933 p. 1073	N	DM	10.10.1933	01.01.1933		-25,00
<b>Gesetz über Außerkraftsetzung des Mineralwassersteuergesetzes und des Schaumweinsteuergesetzes</b>	vom 15. November 1933	RGBl. 1933 I, p. 975	N	SS	15.11.1933	01.12.1933	31.03.1936	-3,90
<b>Schlachtsteuergesetz</b>	vom 24. März 1934	RGBl. 1934 I, p. 238			24.03.1934	01.05.1934		
<b>Gesetz zur Erhaltung und Hebung der Kaufkraft</b>	vom 24. März 1934	RGBl. 1934 I, p. 235						
<i>Abschnitt III Abgabe zur Arbeitslosenhilfe</i>			N	DM	24.03.1934	01.04.1934	31.12.1934	-300,00
<i>REVERSE</i>			N	DM	24.03.1934	31.12.1934		300,00
<b>Ergänzungsverordnung zum Gesetz über Steuererleichterungen</b>	vom 20. April 1934	RGBl. 1934 I, p. 318						



Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>Ermäßigung der Einkommen- und Körperschaftsteuer für Instandsetzungen und Ergänzungen an Gebäuden</i>			N	DM	20.04.1934	01.01.1934	31.03.1935	-25,00
<i>REVERSE: Ermäßigung</i>			N	DM	20.04.1934		31.03.1935	25,00
<b>Gesetz über Änderungen der Vorschriften über die Reichsfluchtsteuer</b>	vom 18. Mai 1934	RGBL. 1934 I, p. 392	N	SD	18.05.1934	19.05.1934		10,00
<b>Einkommensteuergesetz (EStG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1005						
<i>II. Einkommen 3. Gewinn §6 Bewertung kurzlebiger Anlagegüter bei der Einkommen- und Körperschaftsteuer</i>			X	IL	16.10.1934	01.01.1934		-100,00
<i>IV. Tarif §§32 bis 34</i>			X	IL	16.10.1934	01.01.1935		-60,00
<i>II. Einkommen 8. a) Land- und Forstwirtschaft §13 Absatz 3 - Besteuerung der Einkünfte aus Land- und Forstwirtschaft</i>			X	IL	16.10.1934	01.01.1936		25,00
<b>Umsatzsteuergesetz (UStG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 942						
<i>§7 Absatz 3 - Ermäßigter Umsatzsteuersatz für den Großhandel</i>			X	IL	16.10.1934	01.01.1935		-85,00
<i>§13 Absatz 3 - Kleinbetragsgrenze</i>			X	IL	16.10.1934	01.01.1935		-15,00
<b>Gesetz zur Änderung des Erbschaftsteuergesetzes</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1056	X	IL	16.10.1934	01.01.1935		-20,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Bürgersteuergesetz (BStG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 985	X	IL	16.10.1934	01.01.1935		-41,00
<b>Kapitalverkehrsteuergesetz (KVG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1058						
<i>Teil 1 - Gesellschaftsteuer</i>			X	IL	16.10.1934	01.01.1935		-2,00
<i>Teil 2 - Wertpapiersteuer</i>			X	IL	16.10.1934	01.01.1935		1,00
<i>Teil 3 - Börsenumsatzsteuer</i>			X	IL	16.10.1934	01.01.1935		-3,00
<b>Gesetz über die Schätzung des Kulturbodens (Bodenschätzungsgesetz) (BodSchätzG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1050	X	IL	16.10.1934	12.02.1935		116,00
<b>Vermögenssteuergesetz (VStG)</b>	vom 16. Oktober 1934	RGBL. 1934 I, p. 1052	X	IL	16.10.1934	01.04.1936		-40,00
<b>Verordnung über Änderung von Steuersätzen des Schlachtsteuergesetzes</b>	vom 21. März 1935	RGBL. 1935 I, p. 391	N	SS	21.03.1935	01.04.1935		-20,00
<b>Gesetz zur Förderung des Wohnungsbaus</b>	vom 30. März 1935	RGBL. 1935 I, p. 469	N	SD	30.03.1935	31.03.1935		-225,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Verordnung über die Führung eines Wareneingangsbuchs</b>	vom 20. Juni 1935	RGBl. 1935 I, p. 752	N	SD	20.06.1935	01.10.1935		300,00
<b>Gesetz zur Änderung des Gesetzes über das Branntweinmonopol</b>	vom 24. September 1935	RGBl. 1935 I, p. 1177	N	DR	24.09.1935	01.10.1935		17,00
<b>Gesetz zur Änderung des Bürgersteuergesetzes</b>	vom 16. Oktober 1935	RGBl. 1935 I, p. 1237	N	SD	16.10.1935	01.01.1936		-7,00
<b>Verordnung über Zolländerungen</b>	vom 23. November 1935	RGBl. 1935 I, p. 1357	N	SD	23.11.1935	30.11.1935		50,00
<b>Gesetz zur Eingliederung der Genossenschaftsfabriken in das Zündwarenmonopol</b>	vom 10. Januar 1936	RGBl. 1936 I, p. 3	N	DR	10.01.1936	01.01.1936		0,30
<b>Urkundensteuergesetz (UrkStG)</b>	vom 5. Mai 1936	RGBl. 1936 I, p. 407	N	DR	05.05.1936	01.07.1936		42,00
<b>Gesetz über die Höhe der Aufbringungsumlagen</b>	vom 17. Juni 1936	RGBl. 1936 I, p. 511			17.06.1936	01.04.1936		*

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz zur Änderung des Beförderungsteuergesetzes</b>	vom 2. Juli 1936	RGBL. 1936 I, p. 531						
<i>Artikel 1, 1. a) 1. + 2. Personenbeförderungsteuer im Kraftfahrzeugverkehr</i>			N	SD	02.07.1936	01.03.1937		20,00
<i>Artikel 1, 1. a) 3. + 4. Güterbeförderungsteuer im Kraftfahrzeugverkehr</i>			N	SD	02.07.1936	01.10.1936		20,00
<b>Gesetz zur Änderung des Körperschaftsteuergesetzes</b>	vom 27. August 1936	RGBL. 1936 I, p. 701						
<i>Artikel 3 - Sondervorschrift für 1936</i>			X	DC	27.08.1936	01.01.1936		500,00
<i>Artikel 1 - Änderung des Steuersatzes</i>			X	DC	27.08.1936	01.01.1937		0,00
<b>Verordnung über Zolländerungen und über Mineralölsteuer</b>	vom 24. November 1936	RGBL. 1936 I, p. 960						
<i>Artikel 1 - Zolländerungen</i>			N	SD	24.11.1936	01.12.1936		113,00
<i>Artikel 2 - Ausgleichsteuer für Mineralöle</i>			N	SD	24.11.1936	01.12.1936		55,00
<b>Gesetz über Abwertungsgewinne</b>	vom 23. Dezember 1936	RGBL. 1936 I, p. 1126	N	SD	23.12.1936			150,00
<b>Verordnung zum Gesetz über die Weitererhebung der Aufbringungsumlage</b>	vom 3. Juli 1937	RGBL. 1937 I, p. 765			03.07.1937	01.04.1937		

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz über eine Steuer der Personen, die nicht zur Erfüllung der zweijährigen aktiven Dienstpflicht einberufen werden (Wehrsteuer) - WehrStG</b>	vom 20. Juli 1937	RGBL. 1937 I, p. 822	X	IL	20.07.1937	01.09.1937		18,00
<b>Drittes Gesetz zur Änderung des Bürgersteuergesetzes</b>	vom 3. November 1937	RGBL. 1937 I, p. 1158	N	SD	03.11.1937	01.01.1938		-53,50
<b>Gesetz über die Besteuerung des Wandergewerbes (WGewStG)</b>	vom 10. Dezember 1937	RGBL. 1937 I, p. 1348	N	SD	10.12.1937	01.01.1938		7,00
<b>Gesetz zur Verlängerung der Vorschriften über die Reichsfluchtsteuer</b>	vom 19. Dezember 1937	RGBL. 1937 I, p. 1385	N	SD	19.12.1937	01.01.1938	31.12.1938	103,00
<b>Gesetz zur Änderung des Einkommensteuergesetzes</b>	vom 1. Februar 1938	RGBL. 1938 I, p. 99						
<i>Artikel II Ziffer 1 - Besteuerung von Einkommen über 100000 RM</i>			N	DM	01.02.1938	01.01.1937		-3,00
<i>Artikel II Ziffer 2 - Neugestaltung der untersten Stufe der Lohnsteuertabelle</i>			N	DM	01.02.1938	01.01.1937		-1,00
<i>Artikel III - Bewertungsfreiheit für kurzlebige Wirtschaftsgüter</i>			N	DM	01.02.1938	01.10.1937		30,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<b>Gesetz zur Erhöhung der Körperschaftsteuer für die Jahre 1938 bis 1940</b>	vom 25. Juli 1938	RGBL. 1938 I, p. 952						
<i>für das Kalenderjahr 1938</i>			X	DC	25.07.1938	01.01.1938		650,00
<i>für das Kalenderjahr 1939</i>			X	DC	25.07.1938	01.01.1939		0,00
<b>Verordnung über die Zuständigkeit für die Verwaltung der Grunderwerbsteuer</b>	vom 1. August 1938	RGBL. 1939 I, p. 971	N	SD	01.08.1938	01.04.1939		28,00
<b>Verordnung über eine Sühneleistung der Juden deutscher Staatsangehörigkeit</b>	vom 12. November 1938	RGBL. 1938 I, p. 1579	X	IL	12.11.1938	12.11.1938		1000,00
<b>Feuerschutzsteuergesetz (FeuerschStG)</b>	vom 1. Februar 1939	RGBL. 1939 I, p. 113	N	SD	01.02.1939	01.01.1939		22,00
<b>Süßstoffgesetz</b>	vom 1. Februar 1939	RGBL. 1939 I, p. 111	N	SD	01.02.1939	01.03.1939		1,85
<b>Gesetz zur Änderung des Einkommensteuergesetzes</b>	vom 17. Februar 1939	RGBL. 1939 I, p. 283						
<i>§1 Ziffern 1 und 4 - Sonderausgaben, Werbungskosten: 1. Beseitigung des Hausgehilfinnen-Privilegs; 2. Beseitigung der Abzugsfähigkeit der Kirchensteuer; 3. Beseitigung der Mindestpauschbetrags für Sonderausgaben und Werbungskosten</i>			N	SD	17.02.1939	01.01.1939		120,00

Table 3.2 continued.

Gesetz	Date	Source	Classification		Validity			Projected revenue change (mill. RM)
			Major	Minor	Announce-ment	Implemen-tation	End	
<i>§1 Ziffern 2 und 3 (Steuerklassen) und zu §2 (Erweiterung der Kinderermäßigung)</i>			N	SD	17.02.1939	01.01.1939		275,00
<i>§3 - Abgabe der Aufsichtsratsmitglieder</i>			N	SD	17.02.1939	01.04.1939		8,00
<b>Gesetz über die Finanzierung nationalpolitischer Aufgaben des Reichs (Neuer Finanzplan -NF-) - Abschnitt III Mehreinkommensteuer</b>	vom 20. März 1939	RGBl. 1939 I, p. 562	N	SD	20.03.1939	01.01.1939		500,00







Table C.4 continued.

Date	Endogenous						Exogenous			
	N	X	DM	SS	DR	SD	LR	IL	DC	ET
1937q4	0	.02	0	0	0	0	0	.02	0	0
1938q1	.09	0	.03	0	0	.06	0	0	0	0
1938q2	0	0	0	0	0	0	0	0	0	0
1938q3	0	.65	0	0	0	0	0	0	.65	0
1938q4	0	.98	0	0	0	0	0	.98	0	0
1939q1	.02	0	0	0	0	.02	0	0	0	0

N *endogenous*

X *exogenous*

DM *Demand management*

SS *Supply stimulus*

DR *Deficit reduction*

SD *Spending-driven*

LR *Long-run performance*

IL *Ideological*

DC *Deficit consolidation*

ET *External*

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# Tax Glossary

**Aufbringungsumlage** The *Aufbringungsumlage*, also industrial charge, was a levy on the business assets of industry, trade and commerce that served to finance and redeem the industrial debentures created as part of the reparations obligations between 1924 and 1930. With the abolition of the industrial debentures in 1930, it was further raised in favour of the Reich and declared a Reich tax in 1936. 169, 170, 172, 173, 206, 208, 209

**Beförderungsteuer** The *Beförderungsteuer*, or transport tax, is a tax on the transport of persons and goods on waterways and railways as well as by motor vehicles. The tax was introduced in 1917, with collection suspended for waterborne transport in 1921. 150, 196, 213, 250

**Güterbeförderung** The *Güterbeförderungsteuer*, goods transport tax, was a tax on the transport of goods. Between 1921 and 1936 it was only levied on rail transport. It was charged at a fixed rate on the transport price for the carriage of freight. From 1936, it was extended to the commercial transport of goods by motor vehicles. 250

**Personenbeförderung** *Personenbeförderungsteuer*, also passenger transport tax, was a tax on the transport of passengers. Between 1921 and 1936, it was only levied on rail transport. Its rate depended on the four wagon classes in rail passenger traffic. In 1936, the legal basis was created for the extension to the commercial transport of passengers by motor vehicles, which was applied from 1937. 150, 250

**Biersteuer** The *Biersteuer*, beer tax, was an excise duty on the production, import and sale of beer. The amount was based on the total volume produced by a brewery in the accounting year and could be increased or

reduced depending on the gravity of the original wort. 117, 124, 135, 170, 199

**Branntweinersatzsteuer** The *Branntweinersatzsteuer*, spirits substitute tax, was an excise duty on spirits obtained from substances containing wine spirits, which are not spirits in the legal sense of the spirits monopoly. These substances include wine, southern wine, fruit wine, herb wine, malt wine, artificial wine and the like. The tax, which was calculated according to the volume of spirits, was equal to the difference between the sales price and the basic price under the spirits monopoly. The tax was introduced in 1930 to record and tax the additional substitute alcohol used in the production of spirits. It was abolished again in 1942. 175

**Branntweinmonopol** The *Branntweinmonopol*, spirits monopoly, was a state monopoly on the production, vending and distribution of distilled beverages. The state-owned monopoly company regulated production and sales, so that only licensed distilleries were allowed to produce allocated quantities of spirits, which were taken over by the monopoly company at regulated purchase prices. Sales were made at the publicly regulated selling price. 153, 175, 245

**Bürgersteuer** The *Bürgersteuer*, citizen tax, was a tax levied by municipalities on income as defined by the income tax. In 1934, the Reich set a uniform framework for its levying and collection before it was finally abolished in 1942. 232, 239, 245, 257

**Einkommensteuer** The *Einkommensteuer* as income tax is a direct tax levied on the income of natural persons. The tax is calculated on the total income earned by the taxpayer during the year, including wages, salaries and capital gains, according to a progressive tax scale. In the course of Erzberger's financial reform at the beginning of the Weimar Republic, 27 state income taxes were unified by a Reich income tax, which was further developed in the tax reforms of 1925 and 1934. 117, 119, 145, 149, 154, 176, 183, 222, 232, 234, 258, 265

**Abgabe der Aufsichtsratsmitglieder** *Abgabe der Aufsichtsratsmitglieder*, 1933 called *Steuerabzug von Aufsichtsratsvergütungen*, was a tax on supervisory board remunerations of corporations granted to persons designated

to supervise the management of a company. It was levied by tax deduction at source, i.e. by withholding of the tax by the companies under the Income Tax Act. See Aufsichtsratssteuer. 266, 441

**Ehestandshilfe** Ehestandshilfe was an earmarked levy on income as defined by the income tax, collected between 1933 and 1934. It was levied on single and childless persons up to the age of 55, progressively according to the amount of income received by wage and salary earners as well as those assessed. Its revenue was used to grant marriage loans to newlyweds. 222, 233

**Kapitalertragsteuer** The *Kapitalertragsteuer*, capital gains tax, is a direct tax on realised profits from capital assets. Profits here are, for example, dividends, interest and price gains from shares, bonds or insurance policies. 180

**Krisensteuer** The *Krisensteuer*, or crisis tax, was a surcharge on wage and income tax. It was introduced in 1931 for the benefit of the Reich for wage and salary earners as well as for assessed income tax payers. They were intended to create employment opportunities and to increase the funds earmarked in the Reich budget for crisis welfare in the fiscals 1931 and 1932. On 14 June 1932, the crisis wage tax was abolished, while the crisis tax on assessed persons continued to be levied. 189, 206, 207, 233

**Lohnsteuer** The *Lohnsteuer*, or wage tax, is an income tax that is deducted at source from an employee's salary or wage. It is a tax that is paid by the employee and withheld by the employer on behalf of the tax authorities. The amount that is deducted is based on the employee's income, tax class, and other factors. 128, 190

**Veranlagte Einkommensteuer** The *Veranlagte Einkommensteuer*, or assessed income tax, is the tax on the total of all income from employment, commerce and trade, agriculture and forestry, capital assets as well as from renting and leasing. The tax is finally assessed at the end of the calendar year, with quarterly advance payments to be made. The taxable income, which is taxed progressively, is calculated taking into account family status and income-related expenses. 145

**Erbschaftsteuer** The *Erbschaftsteuer* is a tax on the gratuitous transfer of assets by inheritance or gift. The tax is payable by the beneficiary and is based on the value of the property transferred and the degree of relationship to the testator or donor. In Germany, a uniform inheritance tax was introduced in 1906 and with the tax and finance reform of 1919, spouses and children were also included in the tax liability. 117, 121, 204, 232, 236

**Fettsteuer** The *Fettsteuer*, fat tax, was an excise duty on certain fats. These fats include margarine, artificial cooking fats, edible oil, vegetable fats and hardened tran. The levy is charged according to their respective net weight. 220, 221

**Feuerschutzsteuer** The *Feuerschutzsteuer*, fire protection tax, was an tax on fire insurance premiums introduced in 1939. Its revenue went to the Reich for the promotion of firefighting and fire protection. The tax rate varied between 4 and 12 percent of the insurance premium and the insurer was the debtor. 264

**Filialsteuer** The *Filialsteuer*, or branch tax was a surcharge on the *Gewerbesteuer* levied on branches that did business in a municipality but did not have their headquarters there. It was levied for the benefit of the municipalities. 223

**Gewerbesteuer** The *Gewerbesteuer*, or trade tax, is a tax on the objectified earning power of a company or self-employed individual engaged in commercial or business activities. It is assessed according to the income and capital of the company to be taxed on the base amount of trade tax. It is imposed by the municipalities which additionally determines a surtax. 213

**Grunderwerbsteuer** The *Grunderwerbsteuer*, or land transfer tax, is a tax on the acquisition of real property such as land, houses and buildings. The tax incurs upon entry in the land register while it is payable jointly and severally by the purchaser and the seller. It is calculated as a percentage of the value of the realty transferred. 122, 204

**Grundsteuer** The *Grund- und Gebäudesteuer*, or land and building tax, is a tax on the ownership of real property, such as developed and undeveloped

as well as agricultural and forestry land. The amount of tax owed is calculated based on the assessed value of the property and the assessment rate determined by the municipalities. 213, 224, 225

**Hauszinssteuer** The *Hauszinssteuer*, also known as the *Gebäudeentschuldungssteuer*, was a tax on the real or estimated rent from residential property created before 1918. It was levied between 1924 and 1943 and its revenue was divided between the states and municipalities. 242

**Judenvermögensabgabe** The *Judenvermögensabgabe*, or Jewish capital levy, was a one-off expropriating levy on Jews with assets of more than 5,000 RM, who had to pay 20 per cent of this in four instalments. It was enacted in 1938 with the aim of raising a total of 1 billion RM. Since this amount was not reached, the rate was raised to 25 per cent, and a fifth instalment was levied at the end of 1939. 263

**Kapitalverkehrsteuer** *Kapitalverkehrsteuer* or capital transfer tax is a generic term for several taxes on the movement of capital. When introduced in 1922, these were the company tax, the securities tax, the stock exchange turnover tax and the supervisory board tax. 232, 238

**Aufsichtsratssteuer** The *Aufsichtsratssteuer*, supervisory board tax, was a tax on remunerations to members of the supervisory board of corporations. The persons liable for the tax were those who were entitled to the remuneration. The tax was payable by the company on their account. It was levied from 1922 under the Capital Transactions Tax Act before being integrated into the corporation tax in 1925. From 1933 onwards, it was again levied separately. See Abgabe der Aufsichtsratsmitglieder. 122, 439

**Börsenumsatzsteuer** The *Börsenumsatzsteuer*, stock exchange turnover tax, is a tax on transactions of shares and stocks, bonds and debentures, foreign currencies and exchange-traded commodities. 122, 238

**Gesellschaftsteuer** The *Gesellschaftsteuer*, or company tax, is a tax on the transfer of capital to a company. This applies in particular to capital contributions on the foundation of a corporation, capital increases and shareholder contributions. 122, 238

**Wertpapiersteuer** The *Wertpapiersteuer*, securities tax, is a tax on the first acquisition of newly issued securities and other property rights. It applies

to interest-bearing bonds and debentures, as well as foreign shares and participation certificates. 122, 238

**Kraftfahrzeugsteuer** The *Kraftfahrzeugsteuer*, motor vehicle tax, was a annually recurring tax levied as an excise duty for powered vehicles to be used to drive on public roads and places. Its amount was based on engine capacity in the case of motorbikes and passenger cars, and on dead weight in the case of buses and trucks. From 1926 onwards, a surcharge was additionally levied, whereby the states and municipalities participated in the revenue. 136, 144, 200, 218, 219

**Körperschaftsteuer** The *Körperschaftsteuer* as corporate income tax is a direct tax levied on the income of legal entities such as corporations, cooperatives or associations. 117, 119, 154, 232, 234, 251, 263

**Mehreinkommensteuer** The *Mehreinkommensteuer*, was a tax on the additional income earned compared to a reference year. It was introduced in 1939 with a tax rate of 30 per cent on the amount by which the taxable income earned in the previous year was higher than in the year preceding the previous year. Income and corporate income tax payers were subject to this tax. 267

**Mineralwassersteuer** The *Mineralwassersteuer*, mineral water tax, was an excise duty on the production and sale of mineral water. The tax was also applied to artificial mineral waters, lemonades and other artificially prepared beverages. It was levied on the quantity of mineral water produced or imported and was based on a fixed tax rate per liter. 171, 196, 227

**Mineralölsteuer** The *Mineralölsteuer*, mineral oil tax, was an excise duty on mineral oil products. These include gasoline, diesel, heating oil, and other petroleum-based products. The levy was based on the quantity of fuel purchased and was collected at the point of sale. The tax rate varied depending on the type of fuel and its intended use. In 1930, the mineral oil tax replaced the petroleum duty. At that time, the revenue was earmarked for road maintenance. The Nazis increased it drastically for the first time in 1936 and extended it to diesel in 1939. 171, 188, 215, 253

**Reichsfluchtsteuer** The *Reichsfluchtsteuer*, Reich flight tax, was a tax on the transfer of capital abroad, insofar as an individual gave up his domicile in



Germany and his income or assets exceeded certain value limits. It was originally introduced in 1931 to counter capital and tax flight. From 1934 onwards, the Nazis tightened the provisions in such a way that it became a partial expropriation of would-be emigrants, such as Jewish citizens. 197, 198, 240, 258

**Reichshilfe der Personen des öffentlichen Dienstes** The *Reichshilfe der Personen des öffentlichen Dienstes* was an emergency tax on the income of civil servants and public employees. The tax was 2.5 per cent, levied from 1 September 1930 and replaced by salary and wage cuts on 1 February 1931. 176, 181

**Rennwettsteuer** The *Rennwettsteuer*, or race-betting tax, is a tax on bets on horse races placed at a totalisator or with a bookmaker. Tax debtor is the betting provider, whose liability is assessed on the basis of the wager. 220

**Salzsteuer** The *Salzsteuer*, salt tax, was an excise duty on table salt. The tax was levied according to the pure weight of edible salt, while salt rendered unfit for consumption was exempted from the tax. Commercial or agricultural use could also remain tax-exempted. Since its foundation, its revenue accrued to the Reich. 125, 126, 135, 206, 207

**Schaumweinsteuer** The *Schaumweinsteuer*, sparkling wine tax, was an excise duty on the production, import and sale of sparkling wine. It was levied on the quantity of sparkling wine put into circulation based on a fixed tax rate per bottle. 135, 227

**Schlachtsteuer** The *Schlachtsteuer*, slaughter tax, was an excise duty levied on the slaughter of cattle, pigs and sheep. The tax became due at slaughter at a fixed rate per animal. In 1934, the slaughter taxes of the federal states were abolished and replaced by a Reich slaughter tax. 241

**Statistische Abgabe** The *Statistische Abgabe*, a statistical levy, was a fee in favour of the Reich payable on goods to be declared in writing in cross-border trade. The statistical levy was an excise duty within the meaning of the Reich Tax Code. Its introduction in 1931 was intended to cover the costs of statistics on foreign trade in goods. 188, 189

**Süßstoffsteuer** The *Süßstoffsteuer*, sweetener tax, was an excise duty on artificial sweeteners. The tax was introduced in 1922 to bring the taxation of

artificial sweeteners on a par with that of sugar. The tax was based on the weight of the sweetener and was applied to products such as sodas, candies, and other sweetened foods. 264

**Tabaksteuer** *Tabaksteuer*, or tobacco tax, was an excise duty on tobacco intended for domestic consumption. Cigarettes, cigars and cigarillos, smoking tobacco (fine cut and pipe tobacco), snuff and chewing tobacco were subject to the tax. The tax rate varied depending on the type of tobacco product and the retail price. 117, 124, 156, 172, 177, 182

**Umsatzsteuer** The *Umsatzsteuer* is an indirect tax on the value added at each stage of the production and distribution of a good or service. Complementary to the standard turnover tax, several reduced and increased rates were introduced over the years for specific goods and services. 123, 134, 170, 183, 191, 197, 206, 213, 224, 232, 237

**Urkundensteuer** The *Urkundensteuer* was a stamp duty on certified legal transactions with a value of more than 150 RM. It was levied upon the issue of official documents and raised by affixing a revenue stamp. In 1936, the respective state taxes were replaced by a uniform Reich tax, which was abolished in 1941. 249

**Vermögensteuer** The *Vermögensteuer* or wealth tax was a tax on the net worth of individuals and businesses. It was first introduced to finance the costs of World War I in 1919. 120, 154, 183, 204, 232, 235

**Wandergewerbsteuer** The *Wandergewerbsteuer*, itinerant trade tax, is a tax on the earnings from the itinerant business. It was introduced in 1938 with a progressive tax rate on estimated business income. 257

**Warenhaussteuer** The *Warenhaussteuer*, also department stores' tax, was a tax levied on sales made in department stores. When it was introduced in 1930, it was also called *Erhöhte Umsatzsteuer*, as retail businesses with a total turnover of more than 1,000,000 RM were charged a higher rate of turnover tax. In 1933, the states and municipalities were authorised to double the previous tax rates and to expand the range of businesses affected. Furthermore, they were given the option to introduce the *Warenhaussteuer* as a surcharge on the *Gewerbsteuer*. 223

- Wechselsteuer** The *Wechselsteuer*, bill of exchange tax, is a tax on drawn and own bills of exchange and bill-like instruments. If the maturity of a bill of exchange exceeded three months, an additional tax became due. 123, 155
- Wehrsteuer** The *Wehrsteuer* was a surcharge on income tax between 1937 and 1941 for male German citizens born in 1914 or later until they reached the age of 45, provided they were not called up for two years of active military service. 257
- Weinsteinsteuer** The *Weinsteinsteuer*, or wine tax, was an excise duty on the production, import and sale of wine. It was no longer levied from 1926 onwards. 125
- Zuckersteuer** *Zuckersteuer*, or sugar tax, was an excise duty on sugar intended for domestic consumption. Beet sugar, starch sugar, cane sugar and comparable chemical sugar were subject to the tax. The tax was charged according to the respective net weight of the sugar. 143, 172, 188
- Zölle** *Zölle* refer to customs duties or tariffs that were imposed by the German Reich on foreign trade transactions. While export duties were the exception, import duties were levied on imported goods on the basis of a customs tariff code. 127, 137, 159, 171, 178, 180, 199, 246, 253
- Zündwarenmonopol** The *Zündwarenmonopol*, or match monopoly, was a state monopoly on the import, vending and distribution of matches. The state-owned match monopoly company strictly regulated the production and sale while private companies could only produce fixed quantities for the domestic market after purchasing a licence. The match monopoly was established in 1930 in return for a loan from the Swedish industrialist Ivan Krueger to secure the budget 1930/31 and guaranteed the Swedish Match Company a preponderant participation in the monopoly. 158, 247
- Zündwarensteuer** The *Zündwarensteuer*, or match tax, was an excise duty on ignition goods for domestic consumption. Matches, igniters, spark plugs and similar products were subject to the tax. 125, 126, 158