

Online Appendix 1 to “The Borchardt hypothesis: a  
cliometric reassessment of Germany’s debt and crisis  
during 1930-32”

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**Abstract**

Online Appendix 1 describes German economic policies under Brüning.

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# Online Appendix 1

Heinrich Brüning took office on 30 March 1930, when the German economy had already been in recession for more than a year. Table A1 presents a chronology of important events in the Brüning era. As a “Hindenburg cabinet” that was formed without a parliamentary majority, Brüning relied on the president’s powers under Article 48 of the Weimar constitution and governed under the power of dissolution of the Reichstag.<sup>1</sup>

[INSERT **Table A1** about Here]

Brüning introduced the first rigorous deflation policy in July 1930. This intended reform of state finances included cuts in public expenditures, increases in taxes and levies, and an “emergency contribution” by fixed-income earners (Kolb and Schumann 2013, p. 133). Some of these proposals were rejected by the Reichstag on 16 July, and so Brüning decided to promulgate them by emergency decree. That plan met with strong opposition from the Reichstag, which voted to abrogate them. In response, Brüning announced the dissolution of the Reichstag. A few days later (on 26 July) and before the new election, which was scheduled for 14 September, the abrogated proposals were reissued as the emergency decree *Verordnung zur Behebung finanzieller, wirtschaftlicher und sozialer Notstände*. The austerity measures of the emergency decree were even more stringent than the proposals originally submitted to the Reichstag (Holtfrerich 2016). This decree introduced a civic tax graduated according to social class, an increase in the income tax, a tax on unmarried individuals, and an increase in unemployment contributions from 3.5 percent to 4 percent (Winkler 2015, p. 416).

As the recession deepened and the fiscal deficit widened, another emergency decree, *Notverordnung zur Sicherung von Wirtschaft und Finanzen 1*, was issued on 1 December 1930. This decree raised the tax on tobacco and further increased required unemployment insurance contributions to 6.5 percent, yet the decree’s key aspects were a further 6 percent reduction in civil servants’ salaries and the introduction of an expenditure ceiling for the Reich government (Albers 1976). In sum, the second emergency decree embraced

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<sup>1</sup>Texts of the emergency decrees mentioned in what follows are taken from *Deutsches Reichsgesetzblatt*, available from the Österreichische Nationalbibliothek at [http://alex.onb.ac.at/tab\\\_dra.htm](http://alex.onb.ac.at/tab\_dra.htm).

harsh cuts of public expenditures and comprehensive reductions in public salaries—which included a 20 percent cut in the salary of President von Hindenburg.

From January to April 1931, some signs of an upswing had appeared that gave hope for an end to the crisis, with increases of several leading indicators of the economic cycle (Borchardt 1979). To the German authorities, the economic recession prior to mid-1931 appeared to be little different in essence from Germany’s preceding economic recessions. After the Austrian Credit-Anstalt crisis broke out on 11 May and the signs of recovery had disappeared worldwide, the *Notverordnung zur Sicherung von Wirtschaft und Finanzen* 2 emergency decree was issued on 5 June 1931. The decree increased the sugar tax and duties on mineral oil; it also introduced an income-related crisis tax that could amount to 4–5 percent of income. Civil servants’ salaries were cut, for the third time, by 4–7 percent. Unemployment benefits were reduced by between 10 percent and 12 percent, and payments to invalids and disabled veterans were also reduced. This decree was the government’s attempt to balance its budget when facing the recession’s unexpected duration and severity.

These decrees were unable to forestall the twin crises that broke out in Germany during the summer of 1931.<sup>2</sup> A trend of capital outflows had already begun in July 1930 in response to the government crisis and intensified by the Reichstag election in September 1930, when the Nazi Party became the second-largest party in the Reichstag. The Reichsbank lost about 17 percent of its foreign reserves between July and October 1930. Capital outflows entered an extreme phase in May 1931 when the renowned Austrian bank, Credit-Anstalt, announced huge losses. In a single month, the Reichsbank lost about 33 percent of its reserves. Deposits by commercial banks followed the same pattern as the Reichsbank’s foreign reserves. In July, its discount rate was hiked to 7 percent so as to stem capital outflows; this pushed the discount rate difference between Germany and the United States as high as 5.5 percent. A general banking crisis erupted on 13 July when the failure of Darmstädter und Nationalbank on that day led to a run on banks and forced the closure of all German financial institutions. Several banks declared themselves

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<sup>2</sup>For a description of the German financial crisis of 1931, see Straumann (2019).

to be illiquid. The crisis reached its nadir when, on 15 July, the Reichsbank suspended convertibility of the Reichsmark into gold and imposed capital controls. Specifically, a series of 1931 decrees (between 15 July and 1 August) introduced exchange controls. These capital controls were adopted as an emergency device intended to check capital flight and maintain the Reichsmark's official exchange rate (Ellis 1940; Mitchener and Wandschneider 2015). Germany stayed officially on gold.

Before this collapse, many observers assumed that the economic depression was nothing more than a cleansing crisis of the kind that occurred in 1924 and again in 1925–1926 (James 1983). In order to guarantee a lasting recovery, the depression was expected to fulfill its task of cleansing the economy of ill-adjusted firms and overinvestment due to the economic upswing. As a result, few believed that a massive intervention by the state was needed. However, with the financial collapse of summer 1931, realization grew that the recession had entered a new and more serious phase. At this point, various plans for an expansionary policy (mostly in the form of public works programs) had been called for—even by those who believed that the crisis amounted simply to a self-cleansing process (Klausinger 2001). Nevertheless, Brüning held firm on his deflation policy.

Britain abandoned the gold standard on 21 September 1931, when the pound sterling was devalued by nearly 25 percent. Even after that devaluation, the German government did not devalue the Reichsmark. Instead, it intensified its policy of internal deflation in an attempt to counteract Germany's competitive disadvantages (Büttner 1989). Still another emergency decree, *Notverordnung zur Sicherung von Wirtschaft und Finanzen 3*, was issued on 6 October 1931 in hopes of improving Germany's international competitiveness. Even though the decree did not include any drastic fiscal measures, it reduced personnel expenses (state pensions by 5–15 percent), required approval of public-sector borrowing, and sought to consolidate the debts of provincial governments and municipalities. This decree ordered all public building projects to be put on hold for the next three years.

The most painful emergency decree—a reaction to Britain's devaluation of the pound—was issued on 8 December 1931 as *Notverordnung zur Sicherung von Wirtschaft und Finanzen 4*; it included substantial cuts in wages, retail prices, and rents. The value-added

tax was increased from 0.85 percent to 2 percent (although bread and flour were exempted). There was a further reduction of 10 percent in civil servants' salaries and a general reduction in the wages and salaries of industrial employees, which was not to exceed 10 percent unless no reduction had been implemented since 1 July.<sup>3</sup> The alleged aim was to lower wage scales to the level that obtained on 1 January 1927 (Holtfrerich 2016). The period of unemployment insurance eligibility was cut to 16–20 weeks (James 1986, p. 67). To compensate for the consequent reduction in disposable income, a price commissioner with extraordinary powers was established to enforce price cuts. Thus, the prices of coal, iron, and public utilities (for example, railroads) were reduced, and rents were cut by 10–12 percent. Along with these price measures, the interest rate was dropped by 6 percent. The decree “linked wage and price reductions in such a way as to ensure that the purchasing power of the masses was not significantly impaired, while increasing the attractiveness of German exports” (Winkler 2015, p. 424). The decree also introduced a capital flight tax of 25 percent on the wealth of the person involved.

The *Notverordnung zur Sicherung von Wirtschaft und Finanzen 5*, the last of Brüning's emergency decrees, was issued on 15 June and put into force by his successor following Brüning's resignation. This decree reintroduced the salt tax, which the government had abolished in 1929 before the crisis. The decree also eliminated the exemption limit of 5,000 Reichsmark for the value-added tax and reduced social benefits (by 7.5 percent) to their 1927 levels.

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<sup>3</sup>Civil servants' salaries were cut by as much as 23 percent during the Brüning era (James 1986, p. 69).

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**Table A1.** Chronology of the Brüning Era

Date	Event
12 March 1930 (c)	The Reichstag ratifies the Young Plan.
27 March 1930 (c)	Hermann Müller resigns, and Heinrich Brüning is appointed Reichskanzler on 29 March 1930.
16 July 1930 (e)	Fiscal measures are enacted by two emergency decrees, which are rejected by the German Reichstag two days later.
18 July 1930 (e)	Hindenburg dissolves the Reichstag and sets an election for 14 September 1930.
26 July 1930 (e)	Emergency decree is issued: <i>Decree to Rectify Financial, Economic, and Social Emergencies (Verordnung zur Behebung finanzieller, wirtschaftlicher und sozialer Notstände)</i> .
14 September 1930 (e)	After the election, the Nazi party becomes the second-strongest party in the Reichstag.
20 September 1930 (a)	The cabinet asks Hans Luther, then Reichsbank President, to negotiate for an intermediate credit of \$125,000,000.
11 October 1930 (a)	Lee, Higginson, and a group of American financial houses conclude a loan to Germany—the last substantial foreign credit that the Weimar Republic was to receive.
1 December 1930 (b)(e)	<i>Emergency Decree to Secure Economic Activity and Public Finance, No. 1 (Notverordnung zur Sicherung von Wirtschaft und Finanzen 1)</i> .
5 June 1931 (b)(e)	<i>Emergency Decree to Secure Economic Activity and Public Finance, No. 2 (Notverordnung zur Sicherung von Wirtschaft und Finanzen 2)</i> .
20 June 1931 (e)	President Herbert Hoover offers Germany a one-year moratorium on all intergovernmental debt.
6 October 1931 (b)(e)	<i>Emergency Decree to Secure Economic Activity and Public Finance, No. 3 (Notverordnung zur Sicherung von Wirtschaft und Finanzen 3)</i> .
8 December 1931 (b)(e)	<i>Emergency Decree to Secure Economic Activity and Public Finance, No. 4 (Notverordnung zur Sicherung von Wirtschaft und Finanzen 4)</i> .
February 1932 (d)	German unemployment reaches its peak.
30 May 1932 (d)	Heinrich Brüning resigns.
16 June to 9 July 1932 (d)	Lausanne Conference; end of German reparations.
15 June 1932 (b)(e)	<i>Emergency Decree to Secure Economic Activity and Public Finance, No. 5 (Notverordnung zur Sicherung von Wirtschaft und Finanzen 5)</i> .
30 January 1933 (d)	Adolf Hitler is appointed Reichskanzler.

Sources: (a) Bennett (1962); (b) Albers (1976); (c) Klausinger (1998); (d) Kolb and Schumann (2013); (e) Holtfrerich (2016).



*Notes:* Brüning served as Reichskanzler from 30 March 1930 to 30 May 1932. Germany had already been in recession for more than a year when Brüning took office. The *Notverordnung zur Sicherung von Wirtschaft und Finanzen 5* was prepared by Brüning, but it was not put into force (by his successor) until after he resigned.