

PSF: Public Works Planning

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November 19, 1940.

MEMO FOR PAUL

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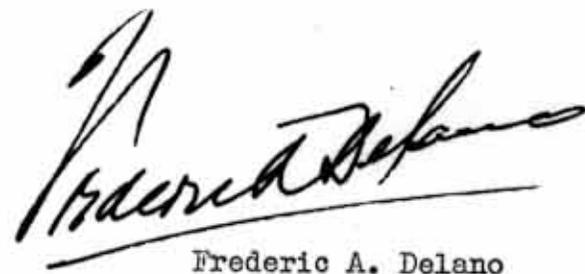
November 18, 1940.

MEMORANDUM for The President:

In accordance with our discussion with you last week on the subject of "Public Works and Employment Planning in Germany", I am enclosing herewith a confidential memorandum on that subject prepared for us by Dr. Lewis L. Lorwin.

As you pointed out, the story of German organization and financing of Public Works is not new, and this memorandum is a convenient summary of material rather than a discovery of new data. We had it prepared for our own use in developing the report on our own Six-Year Program of Public Works and the memoranda on Post-Emergency Economics which you requested.

Respectfully submitted,



Frederic A. Delano
Chairman.

encl. .

Wade Fred

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Public Works

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~~CONFIDENTIAL~~ Planning

Public Works and Employment Planning in Germany

1933 - 1939

by
Lewis L. Lorwin

Prepared for the
National Resources Planning Board

Washington, D. C.
November 1, 1940

Contents

	<u>Pages</u>
I. - <u>Introduction</u>	1-4
II. - <u>Pre-Nazi Programs of Work Creation</u>	5-11
III. - <u>The First Four-Year Plan, 1933-1936</u>	12-61
A. - The First Phase, 1933-1934	14-32
B. - The Second Phase, 1935-1936	33-60
IV. - <u>The Second Four-Year Plan, 1936-1939</u>	61-80
V. - <u>The Prevention of Inflation</u>	81-85
VI. - <u>Reemployment and Standards of Living</u>	86-94
VII. - <u>Concluding Remarks</u>	95-96
<u>Appendix - Statistical Tables</u>	97-108

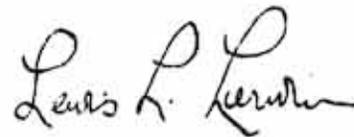
Detailed Table of Contents

	<u>Pages</u>
I. - <u>Introduction</u>	1-4
II. - <u>Pre-Nazi Programs of Work Creation</u>	5-11
III. - <u>The First Four-Year Plan, 1933-1936</u>	12-60
A. - The First Phase, 1933-1934	14-32
1. - Indirect Work Creation Measures	15-19
a. Tax Relief	15-16
b. Subsidies for Housing Repairs	16
c. Other Forms of Subsidy	17
d. Measures for Reducing the Supply of Labor	17-19
e. Miscellaneous	19
2. - Direct Work Creation Measures	19-20
3. - Organization and Financing of the Program	20-25
4. - Effects of the Public Works Program	26-34
a. Effects on Credit	26
b. Effects on the Budget	27-28
c. Effects on Investments and Production	28-29
d. Effects on Employment	29-30
e. General Comments	30-33
B. - The Second Phase, 1935-1936	33-60
1. - Public Works and Rearmament	34-35
2. - New Methods of Financing	35-46
a. Reversal of Tax Policy	36-37
b. Long Term Loans	37-40
c. "Special Bills"	40-41
d. How Was the Financing Made Possible	41-46

	<u>Pages</u>
3. - The "New Plan" for Foreign Trade	47-52
4. - Stabilization of Prices and Wages	53-55
5. - The "Abolition of Unemployment"	56-58
6. - Production and Consumption	59-60
IV. - <u>The Second Four-Year Plan, 1936-1939</u>	61-80
1. - Autarchy and Planning	62-65
2. - Development of the Plan	65-66
3. - Methods of Financing	67-71
4. - The "Stop Price" Decree	72-73
5. - Labor Shortage and "Labor Regimentation"	73-80
V. - <u>The Prevention of Inflation</u>	81-85
VI. - <u>Reemployment and Standards of Living</u>	86-94
VII. - <u>Concluding Comments</u>	95-96
<u>Appendix - Statistical Tables</u>	97-108

Preface

A few words are called for with regard to the materials used in this Report. The annual economic reviews of Germany by Douglas Miller which are quoted in several places, were prepared for the Department of State and have never been published. They are still confidential documents, though the facts and comments made in these Reviews have become widely known. Also, while economic adviser to the International Labor Office in Geneva, Switzerland, I had a number of memoranda prepared in the Economic Section of the Office on economic and social conditions in Germany between 1935 and 1939. Some of the unpublished data in these memoranda have been used here. In so far as the other quoted books, articles and official reports are concerned, they have been freely drawn upon for the picture of German public works planning as presented here. The responsibility for the interpretation of the data used, however, is entirely mine.



Lewis L. Lorwin

November 1, 1940.

I.--INTRODUCTION

German National Socialism has presented itself to the world as a Weltanschauung (a philosophy of life; some would say, a religion), a distinctive political and social system, and as a new method of economic organization. As a philosophy, in line with the voluntaristic and non-rationalist tendencies in German thought, it stresses the supremacy of will over reason, the transcendental value of "blood" and "race" as against environmental progress, the mystic endowment of some specially gifted persons to voice the urge of the "Superior" race towards its world destiny, and the inevitability of force in the racial struggle for survival and supremacy. Translated into political terms, this leads to the assertion of the supremacy of the State as over against the individual, to the idea of a great "Nordic-German" race-state, to the need of building up a powerful military force, and to the affirmation of the principle of "the leader" (Der Führer) and of the exclusive political party which can serve as his instrument of national guidance and leadership. In the field of economics, the general outlook finds expression in the view that economic activities must be subordinated to political ends and coordinated in such a way as to exact the maximum of service from both physical and human resources.

In its broadest sense, German planning since 1933 has been concerned with the attainment of ends based on these ideological, political and social-economic ideas. The ends in themselves have in the main, varied but little. Their most complete formulation is still embodied in the so-called Twenty-five Points adopted as the platform of the Nazi Party in

1920 and reaffirmed by the Nuremberg Party Conference in 1932. The most important of these points are those which call for the liberation of Germany from the fetters of the Versailles Treaty, the creation of a greater German Reich, the unification of the Germanic "folk" in that Reich, and the establishment of an economic system free from "interest slavery" and from large concentrations of capitalist power.

It was common knowledge even before 1938, but has been made particularly clear since, that the Nazi Government foresaw that the furtherance of its political aims was bound to lead to war. The center of German planning soon after 1935 shifted to preparations for war. Economic measures and policies were subordinated to this main purpose to such an extent that German economy between 1935 and 1938 was described and considered as Wehrwirtschaft. Nevertheless, it is also true that during these years various policies were pursued which had as their main objective the winning of the German mind to the National-Socialist philosophy, the strengthening of social-economic institutions (land holding, industrial relations, etc.) in accord with the principles of the new regime.

German planning between 1933 and 1938 thus presents an attempt at a comprehensive and thorough-going reconstruction of the social-economic life of a country.

Owing to its integral character, German planning has been considered and appraised from various angles and points of view. Some students have been interested primarily in the industrial and social policies of Nazi Germany; others have been concerned with its policies of trade control.

A complete analysis and appraisal of German planning in all its phases, is not intended here. The scope of this Report is determined by the fact that there is a wide-spread feeling that, whatever our attitude toward Nazi philosophy, its economic procedures may carry a lesson for democratic countries. During 1936-38, when most democratic countries of the world, despite their partial recovery, were struggling with wide-spread unemployment, Germany was working at full speed and was even complaining of a "shortage of labor". While not envying the Germans their mode of living, many elements in democratic countries were jealous of this particular record and wondered whether it could be equalled, if not excelled, under the democratic way of doing things.

Since 1939, two other aspects of German planning have become of increasing interest and concern to us in the United States. One is the War-planning of Nazi Germany. How is Germany carrying on the war today industrially, economically and socially? What changes, if any, have been made in industrial organization, labor and social policy to maintain or speed production for the war? How is the war being financed? What is its effects on consumption? What methods of rationing have been adopted? What price policy? And similar questions which have importance for an evaluation of German war economy, and which have suggestive value for other countries.

Even more important is the German planning for postwar world reorganization. Even as the war is proceeding, Germany is effecting territorial and political changes in Europe which are fraught with great economic consequences for the United States and the entire world. It is

known that the Nazi government is sponsoring the preparation of plans for a "New Europe" under German political and economic control which would also bring the economic life of over-seas countries (such as Latin America) under German guidance, if not domination. While the details of this plan are not known and may not as yet have been elaborated, what has found its way into the press about it indicates its far-reaching potential effects on world trade and world economy.

There are thus three phases of German planning which are of interest to the United States. First, the social-economic planning of 1933-1938 by which Nazi Germany eliminated unemployment and built its war machine. Second, the war planning since September 1939. And Third, the various plans for a postwar world. These three aspects of the German planning movement would all deserve careful consideration not only for what lesson they may carry for economic theory and action, but also, and especially in their bearing on American foreign policy.

However, the scope of this memorandum is limited to the first phase of the general subject. The main question considered here is how did Germany plan and execute its program of "work-creation" and re-employment after the Nazi government came into power? This general question implies specific questions as to the nature of the work supplied, the methods by which it was financed, the results achieved, and its effects on social and economic life. These specific issues are considered below in relation to the main questions as formulated above.

II.- PRE-NAZI PROGRAMS OF "WORK CREATION"

As the historical perspective lengthens, it becomes clearer that many of the innovations introduced by the Nazis had some roots in pre-existing conditions and institutions.^{1/} This is also, and particularly, true of work-creation and reemployment planning. Most students of the subject have stressed the fact that in this field the Nazi government "continued and enlarged the plans which had been initiated already by earlier Governments to deal with this desperate position, to absorb unemployment and give an impetus to economic activity."^{2/}

German public opinion, deeply influenced by the memories of the inflation of 1921-23, prevailingly favored deflationary measures for dealing with the Depression of 1929 and after. Even the Socialist parties and the trade unions of Germany shared this point of view. However, under the increasing stress of the depression, a breach in this attitude was made, and the two successive pre-Hitler governments in power during 1932-33 (that of Brüning and of Von Papen) took the first steps towards a reflationary reemployment program.

^{1/} See especially Gustav Stolper, German Economy (1870-1940), New York, 1940. Mr. Stolper writes in the Preface to his book: "Without the preparatory work of their predecessors Hitler and National Socialism would not have been possible. The totalitarian regime of the Nazis is merely the climax of the expansionist tendencies and responsibilities of governmental power over the destinies of the German people."

^{2/} See Th. Balogh, "The National Economy of Germany," in the Economic Journal, September 1938.

The measures taken by the German government during this period may be grouped as follows:

1. Relieving the pressure on the labor market. This was done by creating "substitute" employment to which workers were shifted from regular industrial occupations. An important form of such "substitute" employment had been developed during the course of the preceding years in the shape of a voluntary labor service, which had first received legal recognition in 1931. It was much expanded in 1932, and by the end of 1932 there were some 250,000 young men engaged in this form of service. The funds were provided partly out of the Budget, but mainly from the resources of the Unemployment Insurance Fund.

2. Remission of taxes as a means of stimulating private investment. The Government issued two kinds of tax remission bills (Steuergutscheine) which were to serve two distinct purposes:

(a) Tax remission certificates. These were issued by the government to taxpayers in respect of their tax payments for the financial year 1932-33. The taxpayer received a certificate representing from 75 to 100 per cent of his actual payments on account of a number of the most important taxes for which he was liable. He, or any holder, was entitled to use the certificates to meet future liabilities for taxation in any of the years, 1934-35 to 1938-39, while the Government pledged itself to redeem the certificates at the rate of one-fifth of the issued amount in each of the years 1934 to 1938, together with interest at 4%.^{1/} The immediate and direct relief to the taxpayer arose from the fact that he could sell

^{1/} This obligation has in fact been carried out.

these certificates on the Stock Exchange (they were exempt from stamp duty) and could use the proceeds in his business or for any other purpose. At the time of their issue there was no other short-dated investment on the market which was free from risk of capital depreciation, and so the tax remission certificates were a very acceptable investment for the banks and money market. It was contemplated that 1.5 billion RM. would be issued under these provisions.

(b) Bonus tax certificates. The Minister of Finance was empowered to issue tax certificates directly to any employer who could show that he had increased the number of his workers as compared with the number he was employing before the scheme came into operation. The certificates were to be granted at the rate of 100 RM. quarterly for each additional worker. The total amount to be issued was estimated at 700 million RM. The employment bonuses, however, were not claimed to anything like the extent that had originally been anticipated. The practical application of the system--more especially the prevention of abuses--proved difficult. A further objection to the scheme was that the bonuses tended to penalize employers who had previously done their best to keep on as many workers as possible when employment was falling, and to reward those who had shown less sense of social responsibility and had dismissed their staff when business first began to fall off. For these various reasons the system of employment bonuses was abandoned in April 1933.^{1/}

^{1/} See Leo Grebler, "Work Creation Policy in Germany," International Labour Review, March and April 1937. He quotes Institut für Konjunkturforschung, Vierteljahrshefts, 9th Year, 1934, No. 3. Part A, p. 111, for above figure. Also C. W. Guillebaud, The Economic Recovery of Germany, pp. 32-34.

3. Subsidies for the Reconstruction and Repair of Dwellings, 1932 - 1933: Two sums of 50 million RM. each were allocated to this purpose out of the Reich Budget by Orders of 4 September 1932 and 24 January 1933. A further sum of 100 million RM. was also earmarked to guarantee private loans for the same purpose, but no data are available as to the use made of this money.

4. Public works in the more special sense of the term. The program of public works was developed in several stages on the basis of the following acts and decrees:

(a) Work creation programme of 1932, first instalment (known as the Brüning Programme). Legal basis: Emergency Order of 14 June 1932. Provided for public works, to the amount of 165 million RM.

(b) Work Creation Programme of 1932, Second Instalment. Legal basis: Emergency Order of 4 September 1932. This programme provided for public works to a value of 182 million RM.; this programme was subsequently merged with (a) above, and called the "Von-Papen Programme".

(c) Work Creation Programme of January 1933 (The Immediate, "Sofort", Programme). Legal basis: Orders of 15 December 1932, 6 January 1933, and 28 January 1933. 500 million RM. were appropriated for this program to be spent on roads, housing, public utilities and inland water transport.^{1/}

Altogether, over a billion RM. were appropriated for the public works schemes and about a billion and a half RM. were issued in tax

^{1/} As may be seen from the date, the decree relating to the "Immediate," or "Urgency" program was issued on January 28, 1933,--two days before the Nazis took over the Government. The appropriation for these public works was increased to 600 million RM. on July 13, 1933.

certificates. In terms of the German monetary and credit system and in relation to the German national income at the time, this was a not inconsiderable sum.

It was also the Von-Papen government that devised the method of financing the public works program which has attracted so much attention as the most original element in the entire scheme. The method consisted in the device of the so-called work creation bill (or employment creation bill) which was a way of putting short term bank credit at the service of the government for its public works program. The German Government was forced to have recourse to this form of credit for the reason that in 1932 the possibilities of raising revenue by taxation^{1/} were exhausted and that the disorganization of the capital market made it impossible to issue long term loans.

How the situation was met has been described as follows:

"There remained only the Reichsbank as the ultimate repository of the supply of money and credit. The Reichsbank in turn was bound by its own statutes; it could not pursue an active open-market policy, nor could it discount bills on behalf of the Government. It could, however, discount commercial bills without limit, and the problem would be solved if the works to be undertaken under the officially sponsored program could be financed by a type of paper which the Reichsbank could discount. Accordingly, municipalities and other public and semi-public bodies were encouraged to place orders for new houses, roads, etc., incurring in the

^{1/} Aside from the fact that the financing of public works by taxation would have been a questionable procedure.

process a debt which was to be repaid by them over periods ranging up to 25 years, according to the probable length of life of the investment. The orders were given to the ordinary firms engaged in this type of business. The contractors in turn drew bills of exchange for the amounts of the contracts (i.e. cost including profits). These bills were then accepted by certain special financial institutions, notably the Deutsche Gesellschaft für Öffentliche Arbeiten (Oeffa), the Deutsche Bau-und Bodenbank and the Deutsche Rentenbank Kreditanstalt. Once the bills had been accepted, they were discountable by any of the ordinary banks or the Reichsbank and, if discounted by a commercial bank, were rediscountable with the Reichsbank.

"The employment creation bills (as they came to be called) had a nominal currency of three months, but could be prolonged indefinitely until it was convenient for them to be redeemed or consolidated. The contractor was given a large bundle of bills, and when each fell due he would detach the bill bearing the next serial number in the same series and forward that in replacement of the one which was just reaching its term. As a rule the bills were drawn by the contractors or the public body which had placed the contract, and then accepted by one of the special banking institutions mentioned above; but it was also not uncommon for the contractor to draw directly on Oeffa or the Bau-und Bodenbank, etc. In any case the management of the long-term loan side of the operation--the fixing of interest and sinking fund rates to be paid by the borrower-- was in the hands of the acceptance houses."^{1/}

^{1/} Guillebaud, op. cit. p. 34-36.

What effects did the above measures have on the German economy? In the second half of the year 1932, but very definitely by May 1933, an improvement in Germany's economic situation was noticeable. It can, however, hardly be attributed to the above measures. The direct and positive effects of the latter were small. From the moment of initiation of a public works' programme to its actual execution a considerable time must necessarily elapse, and in fact only an insignificant part of the funds allocated for public works had been carried out by May 1933. Of greater importance was the issue of tax certificates, the circulation of which rose from 263 million RM. in December 1932 to 644 million RM. in May 1933. Their chief contribution was to bring about a much-needed improvement in the state of liquidity of the business world. Their main use was to diminish the indebtedness to the banks and to lessen the pressure to reduce stocks still further, but not to finance new investment.

The indirect effects of the Brüning and Von Papen program, however, were considerable. The deliberate abandonment of the policy of deflation, which was implied by the adoption of these schemes, had an important effect on business psychology, even in spite of the unfavorable political situation in the latter part of 1932. The more positive results of these early measures were experienced later in 1933 and 1934, when they redounded to the credit of the National Socialist Government.

III. THE FIRST FOUR-YEAR PLAN
(1933-1936)

When Hitler took power on January 30, 1933, the German economic situation, though showing some signs of improvement, was still extremely serious. Production was low, national income was less than two-thirds of what it had been in 1929 and over 5 million workers were unemployed. The picture is summarized in Table I.

Table I. Employment, Production and National Income
in Germany, 1929-32.

Year	Number Employed	Number Unemployed	Index of Production, 1928 = 100			National Income (R.M.)
			Total	Consumption Goods industries	Production Goods industries	
1929	17,869,000	1,892,000	100.9	98.5	103.2	75,900,000,000
1930	16,515,000	3,076,000	85.1	95.4	85.5	--
1931	14,336,000	4,520,000	66.9	90.6	61.0	--
1932	12,518,000	5,575,000	58.7	78.1	45.7	45,200,000,000

Source - Institut für Konjunkturforschung, Statistik des In-und Auslands. Also Reports of the Reichskreditgesellschaft.

The most urgent problem was that of unemployment. On May 1, 1933, Hitler outlined a Four Year Plan "for the rescue of the German peasant, to maintain the Nation's food supply, and to rescue the German worker by a powerful attack on unemployment." The plan was given effect by the Law for the Reduction of Unemployment passed June 2, 1933, which inaugurated the so-called Battle Against Unemployment. This law was supplemented by a series of decrees between July and November of the same year.

There is disagreement among writers on the subject as to whether the Nazi attack on unemployment was carried out in accordance with previously laid plans or not. The evidence would seem to indicate that the reemployment policies pursued by the Nazi government were inspired in part only by general Nazi ideas. Gottfried Feder, who was Hitler's trusted economic adviser in the early days of the movement, had unorthodox ideas on monetary policy and advocated proposals that residential construction and other public works be financed by issuing "construction money" (Baugeld) which was to be secured by the value of the construction so financed. The idea of this so-called "Feder-money", while not officially incorporated in the party program, certainly predisposed the Nazis to expansionist policies.^{1/} On the other hand, the Nazi party was far from homogeneous in its ideas and attitudes and there was considerable friction between the various wings of the party ("left" and "right") as to what was to be done. This inner party struggle centered around the larger issues of policy such as the nationalization of the trusts and the abolition of "interest-slavery", but it also affected ideas on the character and scope of public works. Also, as indicated above, the Hitler government, on taking power, had at its command tools already prepared by the preceding governments. By further developing these methods and by modifying measures, as experience indicated, the Nazis may be said to

^{1/} It has been pointed out that when Hitler became Chancellor, he appointed Dr. Hjalmar Schacht his adviser in monetary matters. What Schacht did was to devise an inflationist system of "work creation" within the framework of a currency technically and legally still based on a gold standard. See Stolper, op.cit., p. 239.

have developed their plans as they went along. Their plans grew clearer as they planned.^{1/}

As a matter of fact, under the stress of changing circumstances and of its own effects, the First Four Year Plan underwent considerable modifications before it was half completed. Its development can thus be best considered as falling into two periods of two years each: (1) from May 1933 to the end of 1934, and (2) from January 1935 to the end of 1936. These two phases throw light on the different aspects of a public works policy in relation to economic recovery.

A. The First Phase of the First Four Year Plan, 1933-1934.

In considering the first phase of the Battle Against Unemployment, it should be kept in mind that this was also the period of the basic institutional reorganization of the Third Reich. It was between September and December, 1933, that the Reich Hereditary Farm Act (Reichserbhofgesetz) was passed, the Reich Agricultural Estate (Reichsnährstand) established, and the Measures for the Market and Price Regulation of Agricultural Products adopted.^{2/} On July 15, 1933, the Act for the Formation of Compulsory Cartels was passed, and on February 27, 1934, the Act

^{1/} ..."the fundamental economic problems of planning, as conceived by economists trained along the lines of liberal economics, have received relatively little attention in National Socialist literature." See Fritz Ermath, The New Germany, 1936, p. 83.

^{2/} The Act for the Creation of a New German Peasantry was adopted on July 14, 1933.

for the Preparation of the Organic Structure of the German National Economy was adopted which set up the present organization of industry and trade in Germany. In the course of 1933 several regulations on labor organization were passed which prepared the ground for the establishment of the German Labor Front by the law of January 20, 1934.

It was thus in the midst of a process of economic and social re-organization that the first phase of the Battle Against Unemployment had its course. The Battle was fought to a large extent with weapons that lay at hand. The particular measures for reducing unemployment were formulated in the provisions of the law of June 1933, and of subsequent decrees referred to above, and may be considered under the two main headings of (1) indirect and (2) direct work creation measures.

1. Indirect work creation measures

These measures consisted in the provision of tax reductions and exemptions, other forms of relief and special subsidies with a view to stimulating private investment, increase consumption, and remove workers from the industrial market. The following measures may be specially mentioned:

a. Tax relief measures

The tax reductions and exemptions which were allowed were expected to stimulate the automobile industry, housing and the reequipment of industrial plants generally. These provisions included:

- (1) The exemption of all newly licensed private motor cars and motorcycles from the tax on motor vehicles.

(2) Permission to owners of old cars to compound for the annual tax by paying a lump sum.^{1/}

(3) Exemption from taxation of newly built dwelling houses.

(4) Exemption from specified taxes in respect of replacements of machinery and equipment effected within $1\frac{1}{2}$ years (later extended to $2\frac{1}{2}$ years).

(5) Reduction of income and corporation taxes in respect of repairs and extensions of industrial buildings within $1\frac{1}{2}$ years (later extended to $2\frac{1}{2}$ years).

(6) Remission of arrears in taxation on condition that the taxpayer spend an equivalent sum on replacements, repairs and extensions.^{2/}

(7) Exemption from taxation of new business enterprises, provided their product met a recognized vital need of the national economy.

b. Subsidies for Housing Repairs

A sum of 500 million R.M. was allocated from the Budget of the Reich for the conversion of houses into smaller dwellings and for repairs and extensions, in continuation of the schemes introduced in 1932. In addition, house owners were granted interest subsidies at the rate of 4% for 6 years to help them in obtaining capital either from their own resources or by borrowing, for that part of the cost which was not covered by the State subsidy. The original outlay for

^{1/} This provision brought in payments amounting to 55 million RM.

^{2/} Under this provision tax arrears in the amount of 200 million RM. were remitted, thus enabling this sum to be invested in industrial improvements.

work creation amounted to 667 million RM. in capital subsidies and 332 million RM. in interest subsidies, making a total of nearly 1,000 million RM. It resulted in a total expenditure of 2,936 million RM., or nearly three times as much.^{1/}

c. Other forms of Subsidy

Among the various other measures, the granting of marriage loans was original. These loans up to 1,000 R.M., were made to women who had been in employment during a specified period. The loans were to be used by their recipients chiefly to equip their homes. The loans were not in cash, but in the form of vouchers for goods which were accepted in payment by tradesmen. The loans were made repayable at the rate of 1 per cent per month; one quarter of the sum was remitted for each child born of the marriage. The loans were financed by a special tax on all unmarried persons (this special tax was later incorporated in the general income and wage tax).^{2/}

^{1/} See Grebler, op. cit.

^{2/} Till the end of 1934, the total number of marriage loans granted under the law was 366,178. The total number of marriages in 1934 increased to 740,000 as compared with 631,000 in 1933 (an increase of 109,000). It is of course difficult to say to what extent this increase was due to the subsidy system. It is interesting that, according to the data published by the Sickness Insurance Fund, the total number of women workers increased in 1934. It was 4,442,000 in January 1934 and 5,008,000 in November 1934). But the rate of increase of employed women was smaller than that of men. In November, 1934, the number of employed women was 6.5 per cent higher than a year ago; that of employed men increased 12.4 percent during the same period. See Douglas Miller, Commercial Attache, Annual Economic Review, Germany, 1934.

d. Measures for reducing the supply of industrial labor.

Among these measures were the following:

(1) The organization of the Voluntary Labor Service. This Service occupied between 200,000 and 250,000 young men between the ages of 18 and 25. These young men were employed on community projects and works which would probably not have been carried on otherwise.

(2) The formation of the Land-Help Organization (Land-Hilfe). This had the purpose of shifting young workers from the industrial areas to the farms as additional farm help during certain periods. They were usually placed on small and medium-sized farms. For 1934-35, the number of these helpers was fixed at 160,000.

(3) The organization of the Land-Year (Landjahr) in February 1934. This was similar in some respects to the Land-Hilfe, but larger educational and social aims were claimed to be involved. About 20,000 young men and girls were engaged in this enterprise.

(4) The withdrawal of women from the industrial labor market to permit the re-employment of men in their place. Special tax rebates were given for the transfer of women workers into domestic service.

(5) The control of labor mobility. In May of 1934, a law was passed giving the President of the Reich Unemployment Board wide powers to stop the migration of unemployed workers to the large cities. This measure was applied at first to Berlin, Hamburg and Bremen, where unemployment was particularly acute.

(6) The redistribution of jobs ("Sharing the Work"). In August 1934, a decree was issued providing that, in general, employees of both

sexes, under 25 years of age, were to be dismissed and replaced by older persons who were unemployed. This measure did not apply to married persons, and exceptions were made for certain categories of skilled workers. The decree required every employer to render a return of the ages of his employees. The dismissed workers were to be given priority in being placed in new work on farms. The Reich Unemployment Board was to pay to employers a subsidy of 50 marks per month for re-employed workers over 40 years old, as compensation for their lower efficiency.^{1/}

e. Miscellaneous

A number of measures of a miscellaneous character were also part of the general program. Such were the provisions of 70 million R.M. for goods vouchers to give direct relief to the indigent, special loans for the building of small houses, subsidies for the Suburban Settlement Scheme, guarantees of various kinds, and the Winterhilfe and other contributions and levies which brought in considerable sums of money for distribution among the needy and unemployed.

2. Direct Work Creation Program

This program included the public works financed and carried on directly by the government. Under the Act of June 1, 1933, a billion R.M. were appropriated for the purpose. On June 27, 1933, the National Motor Roads Act was passed which provided for the construction of a national system of roads (Autostrassen). The construction and management of this road system was entrusted to a National Motor Roads Company which

^{1/} This measure met with much opposition from both employers and workers. Available evidence indicates that it was not an important factor in reducing unemployment.

was formed as a subsidiary of the German National Railways. The total cost was originally placed at 1,400 million R.M. but was later increased to 3,500 million R.M. These roads were intended in part to popularize motoring in Germany^{1/} and to stimulate the automobile industry as a means of providing a large-scale employment program over a number of years. The employment in related industries (building materials, iron and steel) was stimulated in a high degree.^{2/}

Other parts of the program included the continuation of construction and repair work of the National Railways and the National Post Office begun in 1932. The cost of the Railway program was 991 million R.M. and that of the Post Office 111 million R.M. The funds for this part of the program were used up by the end of 1934.

3. The Organization and financing of the program

The organization and financing of the work-creation program were in a measure decentralized. The only new central organization formed was the National Motor Roads Company. Otherwise, the program was carried forward by the various public authorities (The Reich government, the States, provinces, municipalities) and by public corporations and enterprises. These public bodies were called the "principals" (Träger der Arbeit). The work creation projects proposed by the "principals" had to be approved by various public authorities; with regard to technical and

^{1/} The other purpose was of a military character.

^{2/} There are no level crossings along the whole length of the roads and all entries and exits follow the line of traffic. As a result, there is on an average more than one bridge per every kilometer of road.

economic considerations (especially with regard to the financial position of the "principals") by the State authorities; with regard to social policy by the State Labor departments or the Reich Board for Unemployment Insurance; with regard to general economic and financial policy--by the financial institutions which were expected to grant the necessary credits. The final decision lay with the credit committees of these institutions on which the Reich government was represented.

The financial resources for the program were provided not only by the creation of credit, but also from the Reich budget, and new taxation, from the funds of the Unemployment Insurance Board and of the National Railways Company. It is estimated that out of a total of 5,092 million R.M. allocated for direct work creation measures (between 1933 and 1935) about 1,967 million R.M. or 40% were derived from sources other than bank credit, and some 3,125 million R.M. or 60% were obtained through the issue of work creation or employment bills. The budgetary resources were used chiefly to pay non-repayable subsidies, while the proceeds from credit operations went to the granting of loans.

Following the precedent described above, the Nazi government used "employment creation bills" for financing the main part of its public works program. The chief merit of the "employment creation bill" was that it had the character of an ordinary trade bill which could be discounted by the banks and rediscounted by the Reichsbank. The "employment creation bills" were brought into line with ordinary trade bills by being drawn at three months, although in fact their currency was much longer, and by being endorsed by the firms supplying building materials

and services to the works in question. The usual form of the bills, as already described above, was to be drawn by the original contractors, accepted by the financial institutions, endorsed by the 'principals' (public authorities or public enterprises) and re-endorsed by the firms supplying goods or services to the drawers. They were then discounted by the credit banks and rediscounted by the Reichsbank.

The currency of the "work creation bills" was 15 months in the case of the Von-Papen Programme, 3 years for the National Motor Roads scheme, up to five years for the 'Immediate', Reinhardt, and Post Office Programmes, while the bills for the National Railways Programmes were to mature from 1940 onwards, so that their currency was at least six or seven years. At maturity, the bills were to be paid by the Reich Treasury, or by the National Railways, or the Post Office in the case of their own programmes. Additional guarantees were provided by the Reich Government for these bills, but only in the form of undertakings given by the Government itself.^{1/}

In practice, this meant that the public works program was financed by the creation of short-term government credit. The Reichsbank played a large part in the transactions by rediscounting the bills. Since the latter were guaranteed by the Reich government, it meant that the indebtedness of the State to the Reichsbank was proportionately increased. The burden of the preliminary short term credit was thus borne by the Reich government. The ultimate responsibility rested with the "principals" for

^{1/} See Grebler, op. cit.

whom the work was undertaken. The "principals" were responsible for the payment of interest and sinking fund charges to the Reich Treasury. Thus, the "principals" entered into long-term indebtedness to the Reich for the amounts which the latter raised through short-term credit operations.^{1/}

No official figures have been published on the extent of the public works undertaken or the total amount spent in financing them. The various estimates made are, however, in substantial agreement. According to one source, the various kinds of public works and the funds allocated for them up to December 31, 1934 were as follows:

R. M.

Public Works program	Funds Allocated	Projects Approved	Sums Expended
Work creation program of the Reich	1,880,000,000	1,834,800,000	1,536,500,000
From the Reich Budget	1,135,000,000	1,132,300,000	727,600,000
Reich Employment Board (for relief works, labor service, etc.)	575,000,000	574,900,000	431,800,000
National Railways	991,000,000	991,000,000	991,000,000
Post Office	111,000,000	111,000,000	111,000,000
National Motor Roads	350,000,000	350,000,000	166,000,000
Totals	5,050,000,000	4,994,000,000	3,963,900,000

Source -- Guillebaud, op. cit.

^{1/} The rate of interest ranged from 3 to 5 percent; and the sinking fund charges from $\frac{1}{2}\%$ to 2% per annum. A common provision was that no payments were to be made to the sinking fund charges during the first few years after the public works scheme had been carried out. The loans ran from a period of 15 to 30 years.

The amount of short-term paper created in the process of financing has been estimated as follows for the period 1932-34:

Short term paper (outstanding amounts) in R. M.

Date	Tax Certificates	Treasury Notes	Employment Creation Bills	Total
December 1932	263,200,000	579,200,000	---	840,000,000
June 1933	726,600,000	816,700,000	400,000,000	1,140,000,000
December 1933	1,215,200,000	914,200,000	1,100,000,000	3,230,000,000
June 1934	1,176,800,000	1,321,800,000	2,000,000,000	4,500,000,000
December 1934	1,183,200,000	1,482,600,000	4,000,000,000	6,650,000,000
Increase between Dec. 1932 and Dec. 1934	920,000,000	903,400,000	4,000,000,000	5,810,000,000

Source - Douglas Miller, Commercial Attache. Annual Economic Review, Germany, 1934.

The increased volume of employment creation bills and other short-dated paper was taken up by the banks. The Reichsbank, together with its affiliated institution, the Gold Discount Bank, had taken up about 1,600 million R. M. of the increase at the end of 1934. Next to the Reichsbank, the most important contribution to financing the work creation schemes was made by the public banks, which at the end of 1935, had taken up about 2,550 million R. M. of the increased volume of short-dated paper. The contribution of the private credit banks, on the contrary, was small.

That the open market was able to absorb the large amounts of "employment creation bills" and of other Government short-term obligations was a

surprise to economists and financial experts and was regarded as the "paradox" of the German money market in 1934. In the ordinary course of an upward phase of the business cycle the rise of industrial production and the expansion of business activity in general are usually accompanied by a tightening of the money market and an increase in money rates. The "paradox" of 1934 when the sharp upward trend of industrial production was paralleled by an easier tendency of the money market was explained by three major factors:

a. The greater liquidity of industry was due to decline in raw material stocks. In connection with the shortage of supplies caused by drastic import restrictions and a simultaneous brisk demand for all consumers' goods, there went on a process of "clearance sales".

b. The transfer moratorium for foreign debts, at least the limitation of payments in regard to certain creditor countries and categories of debts, led to an accumulation of R. M.'s in the accounts of the Conversion Office with the Reichsbank. These funds, due but not transferred to German creditors, increased the amount available with the Reichsbank for short-term financing.

c. The large expenditures of the Government for public works were themselves a contributory cause toward the greater liquidity of industrial enterprises. The latter were in a position to repay old "partly frozen" debts to the banks which, in turn, could invest these funds in Government short-term paper.

4. Effects of the Public Works Program

The economic effects of the work creation measures and of the method by which they were financed may be considered in relation to (a) the credit system, (b) the budget, (c) investments, production and the national income, and (d) employment.

a. Effects on credit

Despite the extent of the government financial operations described above, the net increase in the total volume of bank credit was not great for several reasons. In the first place, business concerns, generally were heavily in debt and banks were in an illiquid condition and in debt to the Reichsbank. For some time, therefore, the greater part of the new central bank money was used for reducing the indebtedness of business concerns to the banks and of the commercial banks to the Reichsbank. Throughout this period (as well as later) *pari passu* with the issue of employment bills, there went a decline in the total of ordinary commercial bills and of advances; second, there was a steady withdrawal of funds by foreign creditors and the deposits of German customers also kept diminishing. Third, there was a loss of 300 million R.M. in gold and foreign exchange (on account of unfavorable conditions in the balance of trade).

The "employment creation bills" increased the liquid resources of industry by making large repayments of debts possible. The restored liquidity of banking and industry was reflected in a decline of short-term interest rates. Call money rates fell from 6.23% in 1932 to 4.68% in 1934.^{1/}

^{1/} For effects on capital market and long term interest rates, see Appendix.

b. Effects on the budget

The expansion of government credit had a two-fold effect on the public finances of the Reich as reflected in the budget. On the one hand, the national debt was greatly increased.^{1/} On the other hand there was an increase in tax receipts and a considerable saving on direct unemployment relief and similar expenditures.

The budget for the fiscal year 1934-35 was balanced in the amount of 6,458,000,000 marks. But the first 9 months of the fiscal year (April-December 1934) showed a deficit of 208,300,000 marks. This nominally satisfactory budgetary position was, largely due to the fact that nearly all of the Government's works (and probably a considerable part of its military expenses) were financed by the issue of short-term obligations, which were not included in the budget.

The saving in direct unemployment relief (as distinct from productive work relief) was possible not only because of a decline in the total amount spent for this purpose by approximately 900,000,000 marks, but also because the Reich was able to shift this expenditure to the Unemployment Insurance Board and to the Municipalities. In fact, the number of unemployed entitled to benefits under the insurance scheme was reduced to such an extent that not only did the Unemployment Insurance Board become self-supporting but it was even able to spend considerable amounts for grants to municipalities and for productive work relief.

^{1/} For figures of the entire period 1933-1936, see Appendix.

The extent and significance of this change is evidenced by the following table, giving the amounts spent on the various forms of unemployment relief during four fiscal years:

Unemployment Relief	1931-32	1932-33	1933-34	1934-35
	(In millions R.M.)			
By the Reich	1,049	803	400	-
By the Unemployment Board	1,120	1,123	1,202	940
By Municipalities	763	878	652	410
Totals	2,932	2,804	2,254	1,300

c. Effects on investments and production

Gross investment which had been only 4.2 billion R.M. in 1932 and 5.1 billion R.M. in 1933, rose to 8.2 billion in 1934. In both 1932 and 1933 net investment had been negative, as during these years total investment was considerably below the level necessary for normal capital replacements. The national income rose from 45.2 billion R.M. in 1932 to 46.5 billion in 1933 and to 52.5 billion in 1934. The rise of income from 1933 to 1934 of 6 billion R.M. (13% increase) was thus associated with an increase of gross investment of 3.1 billion R.M. (over 60% increase). The differences in these ratios during 1932-34 as compared with pre-depression years may be seen from the following table:

Year	Gross Investment In R.M.	Increase In R.M.	National Income In R.M.	Increase In R.M.
1932	4,200,000,000	-	45,200,000,000	-
1933	5,100,000,000	-	46,500,000,000	-
1934	8,200,000,000	3,100,000,000	52,500,000,000	6,000,000,000
1926-27	-	2,300,000,000	-	8,100,000,000
1927-28	-	700,000,000	-	4,600,000,000

In so far as production was concerned, there occurred a very considerable but uneven expansion of output. The production goods industries (above all the constructional and building industries) were stimulated by the large orders placed by public authorities and by the growth of investment in general. Their index of output rose from 54.1 in June 1933 to 77.1 in June 1934. The output index of industrial consumption goods rose from 77.3 to 90.9 during the same period. The consumption goods were stimulated by the swing over from acute depression to revival which released a considerable amount of buying power; by the increase in marriages owing to the marriage loans; and by a sudden **emergence** in 1934 of hoarding purchases connected with the rise of prices and shortage of raw materials and the fears of devaluation.

d. Effects on Employment

The effects of the government program on employment were positive and considerable. Between January 1933 and December 1934, the reduction in the number of unemployed was over three million. The development may be seen from the following table:

Period	Total of "Regular" Employment ^{1/}	Total of "Substitute" Employment ^{2/}	Number of Unemployed
June 1932	12,730,000	180,000	5,476,000
Jan. 1933	11,470,000	260,000	6,014,000
June 1933	13,100,000	530,000	4,857,000
Jan. 1934	12,970,000	830,000	3,773,000
June 1934	15,010,000	800,000	2,481,000
Dec. 1934	14,540,000	610,000	2,605,000

Source: Konjunktur-Statistisches Handbuch, 1936, pp. 12 and 16.

- ^{1/} "Regular" employment covers all those engaged in ordinary employment at standard wages. The official German figures of employment include only those employed wage earners and salaried employees who come under the sickness or unemployment insurance schemes. They, therefore, do not include officials, those in the labor service or in the defense forces, or independent workers in industry, handicraft, trade and agriculture.
- ^{2/} "Substitute" employment covers those engaged in labor service (from 200,000 to 250,000 during the above period), land service, and on relief works, and obtaining full maintenance, but not money wages.

e. General Comments

The German public works program during its first phases has been summed up favorably by one of its students as follows:

"The Germans in their recovery measures have laid predominant emphasis upon investment as contrasted with direct transfers to consumers. They have proceeded along the common-sense lines that work and production alone constitute the real source of the wealth of a community, and have regulated money to the subordinate though very important role of financing investment in all its forms, including output of every kind -- but chiefly output in the production goods industries; and they have left it to the investment and employment thus created to produce incomes and savings. In the process they have adopted what, in appearance at least, has been a purely inflationary policy, inasmuch as the money (it is entirely immaterial that it should

have taken the form of bank credit and not of paper money) has been created by the Reichsbank and the banking system as a whole in advance of the production of wealth -- though not,...., in advance of the orders for the production of wealth

"It would appear that, in adopting this policy, the Germans were governed not by considerations based on economic theory and analysis, but rather by the necessities of the situation in which Germany found herself in 1933. At that time the production goods industries were abnormally depressed and suffering from vast unemployment. By contrast, the consumption goods industries were doing relatively well. It was natural, therefore, to apply the stimulus of State orders to that part of the economic system which was hardest hit, and where, moreover, considerations both of the supply of raw materials, and 'labor intensity' made it probable that a given expenditure of public funds would give rise to the maximum amount of new employment. Moreover, the decision not to devalue had left the German price level above that of the countries which had devalued their currencies, and made it imperative to do nothing which could raise initially the general level of prices, such as allowing wages or individual prices to rise, or relying upon an expansion of consumers' demand reacting back on the demand for the products of this investment goods industries....In these circumstances to have attempted to finance consumption would have been worse than useless, so the only alternative left was to concentrate every effort upon creating employment and stimulating output."^{1/}

The fact that both the "investment multiplier" and the "employment multiplier"^{2/} showed low value during 1932-34, has been explained by the same student of German economy on the basis of the following reasons:

- a. There was inevitably a time-lag between the growth of output in the production goods industries (which were chiefly favored by the various programmes for creating employment) and the growth of income and with it expenditure on, and employment in, the consumption goods industries. So long also as there were considerable stocks in existence the rate of creation of new income was retarded.

^{1/} Guillebaud, op. cit. pp. 214-216.

^{2/} The "investment multiplier" expresses the relation between a given increase in gross investment and the resulting increase in total national income; the "employment multiplier" measures the ratio of the increment of total employment which is associated with a given increment of primary employment in the investment (production goods) industries.

- b. The official policy of stabilizing prices, and above all, wages, prevented the upward swing of activity from being reflected in higher money incomes per head.
- c. The early public works schemes were "labor intensive", i.e., they were designed so as to give the maximum amount of employment for a given expenditure of public money. They consisted largely of works using unskilled labor, and the workers employed were mostly paid according to the lowest wage scales.
- d. The large numbers of those engaged in labor service, emergency relief works and other forms of substitute employment (800,000 for the average of 1934) were paid in kind rather than in money, so that their incomes were not added to the money total of incomes from wages and salaries.^{1/}
- e. The first and most urgent uses to which new individual incomes were put were to pay off past debts, to restore cash balances to a reasonable figure, and to replace savings which had been consumed.
- f. Very considerable repayments of foreign credits and loans were still being made during this period. To this must be added the interest service on such portion of the foreign debt as was not affected by the transfer moratorium.^{2/}

The works program of the German government showed itself first and foremost in the development of building activity. From the beginning of 1933 there was a continuous increase in the volume of building, and the seasonal reduction of employment during the winter months was surprisingly small. The number of unemployed workers in the building trades, which amounted in the first quarter of 1933 to about 921,000, fell in the first quarter of 1934 to 390,000 and in April, 1934 to

^{1/} The monthly cash income of "land helpers" amounts to between 15-25 marks, while their main income takes the form of free board and lodging. Those undertaking "voluntary labor" receive their board and lodging and clothing and in addition, pocket money amounting to from 25 to 40 pf. per day. Reichskreditgesellschaft, Report for first half of the year 1934, p. 27.

^{2/} Guillebaud, op. cit. pp. 49-50.

230,000. The government policy affected also the building of private houses. Thus in the first quarter of 1934 some 11,400 new apartments were constructed by alterations to existing houses, as compared with 5,200 in the first quarter of 1932.^{1/}

Taking all facts into account, it may be said that though Germany was beginning to experience a normal upswing of the business cycle, recovery would probably have been retarded (in view of conditions in the money and capital market) had it not been for the stimulation of the public works program. Also, the effects of this program were enhanced by the magnitude of the sums allocated, by the method of financing, and especially by the speed and energy with which it was put into effect.^{2/}

B. The Second Phase of the First Four-Year Plan 1935-1936

The first two years of the First Four-Year Plan while registering considerable success for the reemployment policies of the government, created certain difficulties and problems. The possibilities of new works projects were reaching a limit, the credit expansion facilities of the Reichsbank were being strained, prices were showing a

^{1/} Reichskreditgesellschaft, Report for first half of 1934, p. 14.

^{2/} By far the greater part of the sums actually expended to the end of 1934 arose out of schemes which were only initiated during the course of 1933.

tendency to rise, the balance of trade was becoming more and more unfavorable, and there was increasing doubt as to the ability of the government to carry its program forward.

There is no question that these difficulties were a factor in the development of the new domestic and foreign policies which marked the second phase of the First Four-Year Plan. In any case, they reinforced the general Nazi aims which resulted in the remilitarization of Germany and in strengthening the trend toward the reorganization of German economy on a war preparedness basis. (Wehrwirtschaft)

The interaction of the difficulties indicated and of general Nazi political aims affected the public spending program of the German government in a number of ways. The most important developments were towards rearmament, the increasing control of the government over the capital market, the reduction of the long-term rate of interest, the issue of long-term loans, and the extension of price and foreign trade controls.

1. Public Works and Rearmament

It was in March, 1935, that Herr Hitler announced the withdrawal of Germany from the Disarmament Conference and the reintroduction of conscription. On August 24, 1936, the two-year compulsory military service was introduced.

The public works undertaken in 1933-34, which were the main driving force of the economic recovery of the first phase of the First Four-Year Plan had as their primary objective the reduction in the number of unemployed. Beginning with 1935, the dominating consideration

became the task of effecting the rearmament of Germany within the shortest possible period. Some of the earlier work projects, especially the construction of super-auto-roads (planned for a period of ten years) were continued, but the bulk of these employment programs was carried toward completion in 1935. They were now substituted by huge orders for arms and munitions, automobiles, tanks and war ships, construction of barracks, aerodromes, munition factories which began to be built on a vast scale and with feverish haste.

This shift from the usual employment schemes to armament orders meant considerable structural changes in production and employment. It accentuated the predominance of the production goods industries. It created a greater demand for skilled labor. It affected the composition of the national income. It played a large part in subordinating the German economy to greater government control, as indicated further on.

2. New Methods of Financing

It was estimated at the time that the total additional budgetary and extra-budgetary resources of the Reich from 1933 to the end of 1935 used for public works and rearmament were approximately 18,000,000,000 R. M. The total cost of employment schemes and public works of a non-military character was estimated at some 6,000,000,000 marks during the years 1933-35.^{1/} Consequently, the amount available for rearmament

^{1/} Quoted in the address of Assistant Finance Minister Reinhard at the Nuremberg Party Convention on September 15, 1935.

must have been roughly 12,000,000,000 marks, and it is this figure which has been quoted as having been spent during 1935-36. In financing these expenditures, the Nazi government reversed itself on some of its policies of 1933-34, while also having recourse to some new devices.

a. Reversal of Tax Policy

As pointed out earlier, during 1933-34, the Nazi government pursued the policy of tax reductions and exemptions as a means of stimulating recovery. During 1935, this policy continued, but in 1936, the policy was reversed. Certain tax abatements granted previously were revoked. Thus, the tax exemptions to encourage the building of small homes which originally were to remain in force until March 31, 1938, were abrogated in November 1936 insofar as the construction of the homes in question would not be completed up to September 30, 1937. The change of policy was motivated by the fact that the building trades were now employed to capacity and there was even a shortage of certain building materials so that the original intention of the law to stimulate building activities had lost its meaning. Furthermore, existing taxes were raised and greater strictness was applied to their assessment and collection. The corporation income tax was increased 50% (on August 28, 1936). A new tax on devaluation profits was imposed. Important duties on gasoline and benzol were raised.

As a result of the improvement in tax revenues due to these policies and to the results of government expenditure which boosted incomes, private spending and savings, a greater part of the Reich total expenditure in 1936 could be provided for from taxes. According to semi-official estimates, one quarter of Germany's national income was absorbed in 1936 by taxes of the central government.^{1/}

b. Long-term Loans

The strain imposed on the Reichsbank by the rapidly increasing short-term debt forced the government to seek ways and means of strengthening the capital market and of mobilizing the financial resources of the country in the interests of government long-term credit. What the Nazi government contemplated was to reduce the long-term rate of interest and to convert as large a part of the floating indebtedness into long-term government loans.

The first step in this direction was taken by the "Loan Stock Law" or "Dividend Limitation Law" (Anleihestockgesetz) of March 29, 1934, which provided that an amount equal to profits earned by a company in excess of 6% (in some cases 8%) should be invested in government bonds. This investment called "loan stock" was to be carried on the company's books and balance sheet as a "blocked investment" among its assets for a period of two

^{1/} This estimate excludes the levy on business for the export subsidy fund, contribution toward the "Winter relief fund", the "Adolph Hitler Spende", etc., and the contributions of German workmen and employees toward the unemployment relief fund.

years, after which the company recovered the right of free disposal of the loan stock. It could then sell the bonds and distribute the proceeds among its shareholders.

On December 4, 1934, a new law was passed which compelled German corporations to invest not an amount equal to the surplus dividend distributed, but the surplus dividend itself regardless of the fact whether the amount in excess of 6% represented an increase over the last year or not. The investment of the "Loan Stock" in the new law was not left to the discretion of individual companies. The amounts in question had to be remitted to the Golddiskontbank, which invested them on behalf of the shareholders in Reich loans, and administered the "loan stock" as a trustee in the interest of holders. The effect of this legislation was to make stocks unattractive and to create additional demand for government bonds.^{1/} The new Bank law and the Credit Regulation Act, passed at the same time, promoted the same aim by including fixed interest securities, which were eligible as collateral against Reichsbank loans, in the liquid reserves of the credit institutions and by other provisions.

^{1/} In accordance with the purposes of this law, the Stock Exchange Committees almost without exception rejected the admission of new stock, and even made the readmission of shares of reorganized companies conditional upon banks keeping for a certain period the new shares that they took over, in order that they should not impair the sales of public bonds. As a result despite the spectacular expansion of industrial output the issue of new shares in 1935 remained at the extremely low level of 1934 and the issues of private bonds were also inconsiderable. Thus, by tightening its control over new emissions, the Nazi government curtailed the demand of private business for capital and monopolized the capital market for its own requirements.

The Nazi government then took measures to reduce the long-term interest rates by converting outstanding public and mortgage bonds (amounting to over ten billion R.M.) from a basis of 6 1/2 to 4 1/2 percent interest.^{1/} In order to bring this result about, all the forces of propaganda were mobilized. The transaction, voluntary in form, was compulsory in essence. In February 1935, the government negotiated an agreement with the banks for reducing the interest rates prevailing between the banks and their clients. During 1936, it promoted the conversion of industrial bonds to a lower interest basis. Finally in July 1936, the interest on private (non-agricultural) mortgages was regulated and reduced.

Having thus prepared the **ground**, the Nazi government issued consolidation loans in 1935 amounting to 1,800,000,000 R.M. for a period of 27 years, and another loan (National Railway Loan) in January 1936 of 500,000,000 R.M. for a similar period. In addition, Treasury bonds redeemable in 10 years were issued in 1935-36 to the amount of about 2,000,000,000 R.M. The bulk of these issues was placed directly with the banks, savings banks and other credit institutions and insurance companies

^{1/} To stimulate the conversion, the government offered a single tax-free bonus of 2% to converting holders. If the holder did not agree to the conversion he was allowed to continue to draw the former rates of interest, but his bonds ceased to be quoted on the Stock Exchange and were no longer eligible as collateral at the Reichsbank. Over 99% of the bonds were converted. It has been pointed out that the success of the operation was due not only to the credit controls described above but also to the fact that the foreign exchanges were strictly controlled so that no funds could be transferred abroad.

without passing through the regular channels of the capital market. In September 1935, 500,000,000 R. M. in the form of $4\frac{1}{2}\%$ Treasury bonds redeemable in 10 years were offered for public subscription, but the bulk even of this issue was taken over by the banks and did not reach the public. However, two other bond issues of the same amount each were offered for public subscription in 1936. All told, the Nazi government succeeded in 1935-36 in placing primarily with the banks, and only to a small extent with the general public, long-term loans to the amount of some 4 billion marks.

c. "Special bills"

As a larger part of the government expenditures in 1935-36 was covered by taxes and long-term loans, the portion covered by short-term borrowing was somewhat reduced. But neither the growth of the tax revenue, nor the issue of long-term loans could provide the billions of marks which the Treasury needed, and short-term borrowing remained the chief method of satisfying the Reich's requirements.

The instruments of short-term borrowing of 1935-36, were no longer termed "employment creation bills,"^{1/} but 'special' bills (Sonderwechsel). These bills had a nominal currency of six months, being discountable at the Reichsbank at the end of 3 months, and were renewable without limit. The extent of this credit expansion produced by the policy of issuing "Sonderwechsel", or special bills for armament and other purposes, may be

^{1/} The "employment creation bills," were bought up by the government by the end of 1937.

estimated on the basis of the statistics of bill holdings by public and private banks. The figures are given in the table below.

Table Bills held by banks on October 31
of each year

Bank	In millions of R.M.				
	1932	1933	1934	1935	1936
Reichsbank	2,897	3,162	3,729	4,110	4,942
Golddiskontbank	324	251	218	697	625
5 Special Institutions ^{1/}	194	284	464	679	851
5 Big Berlin Banks	1,674	1,689	2,017	2,167	2,569
State and Provincial Banks...	558	668	921	1,022	1,060
Other Credit Institutions ...	963	1,491	2,137	2,525	3,019
Total bills held by banks ...	6,610	7,545	9,486	11,200	13,066 ^{2/}

Source: Reichskreditgesellschaft, Annual Economic Review for 1936.

- ^{1/} Deutsche Bau-und-Boden Bank; Bank für Deutsche Industrie-Obligationen; Diskont-Kompagnie; Deutsche Verkehrs-Kredit Bank; Bank der deutschen Arbeit.
- ^{2/} These figures are by no means exhaustive since growing amounts of "Sonderwechsel" were kept by industrial corporations for a more or less considerable period after they had received them in payment for deliveries and services.

d. How was the financing made possible?

There was much discussion at the time as to how Germany was able to provide the financial resources for its huge public works and rearmament program and many observers believed that the financial strain would soon prove too great. The Reich's financial performance during 1935-36 has since been explained as follows:

1. The increase in economic activity and the consequent growth of profits and of the national income enabled the government to increase

considerably its revenues from taxation. Total tax revenues in 1935-36 was 600 million R.Ms. higher than in the previous boom of 1928-29 when it amounted to about 9 billion Reichsmarks.^{1/}

2. The economic revival and the fall in unemployment improved the financial position of the Reich Unemployment Office. The Office was not only able to dispense with all extra contributions and assistance, but to obtain a surplus and to accumulate reserves. Compulsory contributions to unemployment insurance, which were raised during the crisis from 3-1/2% of wages to 6-1/2% (in 1930) were maintained at this high level. The insurance taxes and other compulsory contributions were devoted to the purposes of public investment and capital accumulation.^{2/} In 1936 the receipts of the Unemployment Relief Board considerably exceeded the amount paid in unemployment benefits, and the balance contributed in the form of investment in government bonds or short-term obligations, toward the general resources of the Reich.

3. The large sums needed for private investment in plant and machinery as output in certain industries reached capacity was increasingly obtained from the profits of industry itself. In 1934 for the first time a balance of profit was realized amounting to about 750 million Reichsmarks. In 1935 net profits probably rose to well over 1,000 million Reichsmarks. The effect of the Dividend Limitation Law of 1934

^{1/} See table in Appendix.

^{2/} Reichskreditgesellschaft, Report for first half of 1936, pp. 48-49.

and of the restrictions on new capital issues caused firms to reinvest much of their undistributed profits in their own business.

4. The growth of incomes which followed the expansion of production and employment increased the savings of the general public, and a large part of these savings flowed into the savings banks and insurance companies. Total deposits with the savings banks increased by 704 million Reichsmarks in 1934 and by a further 970 million Reichsmarks in 1935. The savings banks and insurance companies were able to subscribe to an amount of 1,206 million Reichsmarks of government obligations in 1935 and of 1,323 million Reichsmarks in 1936.

5. By banning or severely restricting all private capital issues, the government monopolized the country's savings and capital resources for its own ends. "The open capital market is completely overshadowed by public enterprise. The issue of private securities has ... been extraordinarily low. During the four years 1932 to 1935 the total issue of new shares amounted to as little as 540 million Reichsmarks. ... During the sixty years and more which has elapsed since private enterprise came to be based on the joint-stock principle, no economic revival has ever taken place in which new industrial and commercial issues have been so low as they are now. The peculiarity of the present situation is due, partly to the emphasis on public investments, but partly also to the increased importance which has attached to expansion by means of undistributed profits."^{1/} ... It was estimated that public borrowing during 1933-36 absorbed 90% of the country's net accumulation of capital.

^{1/} Reichskreditgesellschaft, Report for first part of 1936, pp. 50, 51.

6. The use of totalitarian methods of "persuasion", involving the threat of force, in carrying out the conversion operations in 1935 and the long term loans of 1935-36. With the aid of these methods, the Nazi government succeeded in refinancing in 1936 floating debts of over 2 billion marks, or a total of nearly 4 billion marks during 1935-1936.

7. The government made use of the liquid resources of the country by a series of ingenious devices such as the "employment creation bills," the "solawechsel"^{1/} and the "special bills". Business enterprises and the banks were in a condition of liquidity owing to the fact that stocks and inventories were low, sales were brisk, profits good, and long term investments either in domestic or foreign private issues were either forbidden or greatly restricted.^{2/} The government used the Reichsbank and other public banks to the full to carry its short term obligations. The role of the commercial banks as direct lenders to industry and trade

^{1/} For description of Solawechsel, see p. 47.

^{2/} The abnormal liquidity of the German money market did not come to an end in 1936. This seems to indicate that the process of liquidation of stocks and inventories (not replenishable owing to import difficulties and scarcity of domestic materials) has not yet been completed and continues to be one of the main contributory factors in keeping money plentiful and money rates low. Also, the compulsory accumulation of untransferable sums due to foreign creditors still served to increase the funds seeking short-term investment and used principally for the purchase of short-term government paper. Finally, the liquidity of industry fully employed and financed by government orders determined the fluid condition of commercial banks. See Douglas Miller, Annual Economic Review, Germany 1936.

was greatly reduced. The banks took an increasing part in the financing transactions of the government by increasing their holdings of government securities^{1/} and by discounting the "special bills". On the other hand, the Reichsbank decreased its holdings of securities during 1936 and increased its rediscounts of bills. By 1936, about 95% of all bills held by the Reichsbank represented directly or indirectly government obligations. In 1935, for example, the Reichsbank discounted bills to the amount of 36.9 billion Reichsmarks. Of this amount, commercial rediscount credits amounted to only about 3 billion marks. In other words, over 90% of the Bank's rediscount credits represented the discount of employment and special bills.^{2/}

The existence of this huge "unrecorded" floating debt, in the opinion of many at the time, represented a serious danger. A financial or political upheaval or panic, it was said, would cause banks and business men to rediscount their holdings of government bills with the Reichsbank, which would naturally result in a brisk increase in the note issue at

^{1/} The total of these securities rose from 569,000,000 Reichsmarks in 1934 to 817,000,000 in 1936.

^{2/} See Douglas Miller, *op. cit.* The position of the Reichsbank was eased to a considerable extent by the issue of the "Solawechsel" referred to above. The Solawechsel was a promissory note issued by the Golddiskontbank. These notes were issued for 3 months and were rediscountable at the Reichsbank. These notes offered the banks an extremely liquid form of short-term investment. With the proceeds from the sale of Solawechsel the Golddiskontbank purchased "employment bills" and "special bills" from the Reichsbank and thus eased the latter's position.

least by several billion marks. The answer to that was that in the first place, a large portion of these bills held by the banks and industrial corporations was not even formally eligible for rediscount with the Reichsbank. Second, it was particularly pointed out that, under the conditions in Germany, the danger of such a "run on the Reichsbank" was a practical impossibility. The means of control of the Nazi State were so complete and effective that it was entirely in the powers of the government to avert such a danger from the start. In fact, it could probably stop such a "run" by a compulsory transformation of the bills into a long-term loan.

But the operations of the Nazi government were supported also on general grounds. The theory was advanced that short-term and indefinitely renewable employment and armament bills did not represent a liability of the German Government, -- at least not before their maturity, when they were to be either redeemed or refinanced by the issue of long-term bonds. Furthermore, these bills were said merely to "anticipate" public revenue of the next three or five years.

What actually happened was that the whole credit system was made to work on State or government credit instead of private credit. The private German capitalist, whether owner of stock in a company, a depositor in a bank, or the holder of an insurance policy, was exchanging his capital for an obligation of the Reich. The Nazi government could accomplish that by using its political pressure and also by making the banks legally as well as practically agents of the Reich government.

3. The "New Plan" for foreign trade

The German balance of commodity trade had been deteriorating steadily since 1931. Nevertheless, when the Hitler government came to power in January 1933, Germany still had a considerable export surplus. But in 1934 there was a fall in exports and an expansion of imports. The total value of exports in 1934 was only 44% of its value in 1931. Imports in 1934 exceeded exports by 284 million marks. The decline in exports was caused largely by the growing disparity between German and foreign prices, by the growing competition of countries with devaluated currencies, by the wide extension of tariffs and exchange restrictions, and by boycotts in several countries against German goods.

Ever since 1931 there had been a measure of exchange control in Germany, but it had been administered chiefly with the aim of limiting the withdrawals of foreign credits from Germany in order to safeguard the external value of the mark. The limitation on transfers did not affect, however, the short term debts owed to foreign banks which were regulated by the "Standstill agreement" of September 1931. Also, until June 1933, foreign exchange was readily available for the payment of interest.

Beginning with June 1933, the Nazi government began to tighten its control of foreign exchange. In June 1933, a law was passed restricting the transfer of income derived by foreign creditors from their property in Germany. The transfer of the full interest and sinking fund payments

of the Dawes Loan and of the interest on the Young Loan was continued, but beginning with July 1, 1933, the sinking funds on all other loans were suspended, and only half the interest was transferred in foreign currencies to the end of 1933.

By the summer of 1934 the exchange position had much deteriorated. The reserves of gold and foreign exchange were practically exhausted and it was no longer possible to continue transfers under the previous arrangement. In June 1934 transfer of interest by foreign exchange payments was completely stopped in principle, and foreign creditors were offered ten-year Funding Bonds, bearing interest at 3%. The provisions excepting the Dawes and Young loans from transfer restrictions were also abrogated as from July 1, 1934.

The whole system of foreign exchange control was breaking down. The system in force was one under which German importers were given a foreign exchange allotment in proportion to the amount they had imported before 1931. In February 1934, the allotment was 50%, but by May 1934, it had fallen to 5%, and finally a day to day allotment was introduced.

Thus, the Nazi government found itself confronted with the alternative of devaluation. Widespread rumors of such devaluation, combined with rising internal prices of a number of commodities, led to a wave of hoarding purchases which depleted retailers' stocks and led to large orders of consumption goods. The government was impressed by the sensitiveness of the public to the mere hint of devaluation, but there were

other reasons which weighed with it. If Germany devaluated in 1934, other countries might devalue their currencies still further. It was doubtful whether Germany would have been able to stand the abolition of exchange restrictions, since large amounts of capital were eager to emigrate and could hardly have been restrained in the absence of control over the exchanges. The stability of the German price structure would have had to be sacrificed and the economic system would have been dominated by international trade factors.

The Government decided against devaluation, and in September 1934, Dr. Schacht announced the so-called "New Plan" for foreign trade. The system of foreign exchange allotment by quotas was replaced by a system under which a foreign exchange certificate had to be obtained for every individual transaction before an order abroad could be placed. The "New Plan" was designed to hold imports strictly to the available amount of foreign exchange. Purchases were to be confined as far as possible to countries which bought at least equivalent amounts from Germany. Preference was to be given to imports of needed raw materials. The administration of these regulations was entrusted to 25, later 27, boards, which not only controlled the source and quantity of imports, but rationed the supply and restricted the purposes for which many raw materials might be used.

Under the "New Plan", Germany shifted its imports as much as possible to countries with which it could arrange clearing agreements which obviated

the use of foreign exchange.^{1/} By the middle of 1936, Germany had concluded 28 such clearing agreements. Since these agreements enabled German importers to pay in marks, the Reich covered as much of its import requirements as possible through this clearing procedure while reducing imports from non-clearing countries to the level of their purchases of German goods. Countries dependent on the German market saw little alternative but to increase their imports from the Reich in order to liquidate outstanding mark balances and to permit the continuation of German purchases. This became increasingly true of Southeastern Europe where German trade penetration grew apace.^{2/}

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- ^{1/} The clearing agreement operates somewhat as follows: importers in each country make payments in their own national currency, and these are deposited in a clearing account usually established with the Central Bank. Out of this account exporters are in turn reimbursed. If imports fail to equal exports, a balance accumulates in favor of one of the two parties to the agreement. Since the transfer of foreign exchange is in most cases not allowed, such a balance can be liquidated only if the creditor country curtails its sales to, or increases its purchases from, the debtor state.
- ^{2/} Germany bought heavily in these countries linking thereby these countries closer to the Reich. Often it bought more than its own requirements and resold the surplus abroad in return for foreign exchange. The exports surplus in German trade with Southeast Europe in 1932 was converted into an import surplus. The clearing balances accumulated in Berlin to the credit of Southeastern countries could only be liquidated by buying more manufactured goods from the Reich. These goods, however, were often of Germany's choice, and commanded prices higher than comparable goods in the world markets. But there were some genuine and real advantages to these countries in dealing with Germany. The producers of raw materials and agricultural products in Eastern Europe were offered contracts by Germany to take fixed, or even unlimited quantities of certain crops for periods up to ten or 12 years at predetermined prices, payable through clearings in German goods, the prices of which were also fixed by contract. This promise of stability was an immense attraction to producers who for years had suffered from violent movements of world prices.

Another device introduced under the "New Plan" was the so-called Aski Mark. With Latin America especially, Germany arranged her trade on a compensation basis which took either the form of direct bargaining (such as the exchange of Brazilian cotton and coffee against German manufactured goods), or of private compensation against payment in Aski marks. (Auslaendersonderkontern für Inlands-Zarlungen).

Under the Aski system, suppliers of materials sold to Germany received payments in a special category of marks which were available for counter-purchase of German goods, usually at a rate below the official exchange rate. The value of the Aski mark varied from country to country, and was not transferable from one country to another, although they might be sold internally. In practice, the use of the Aski mark had much the same effect as a clearing agreement in that it enabled Germany to obtain supplies of raw materials in exchange for German goods.^{1/}

The control of the foreign exchanges was steadily tightened as shortages in Germany became more serious. On December 1, 1936, a decree was passed ordering capital punishment for wilful failure to surrender foreign exchange or for any illegal attempt to export capital.^{2/}

^{1/} Germany used the blocked mark scheme of purchasing at what seemed to be attractive prices, but by placing restrictions on the types of goods she was willing to export, restricted sales so that blocked marks accumulated in the hands of Latin American banks. In some instances, experience showed that the terms of trade were not as favorable as the Latin American nations had hoped and resistance began to develop.

^{2/} For details of the system see the reports on Exchange Control and on clearing Agreements published by the League of Nations, 1936-1938. The Reports of the Foreign Policy Association have also been drawn on for the material in this section.

The "New Plan" was costly and cumbersome. The restriction of imports in face of a growing demand of industry involved the rationing of raw materials inside the country.^{1/} The decision not to devalue but to maintain the nominal external value of the mark, left German wholesale prices much above the level of world prices, and made it necessary for export prices to be subsidized. The device adopted was a levy on industry (Exportumlage), operated through the Group organization. In theory, the levy was voluntary, but in practice it could not be evaded.

But the "New Plan" accomplished its main purpose. Whereas the balance of trade in 1934 had shown an excess of imports over exports of 284 million R.M., this was transformed in 1935 into a favorable balance of 111 million R.M., and this balance increased to 550 million R.M. in 1936. The "New Plan" also had the advantage of making possible the stabilization of the German internal price level and the prevention of large-scale capital exports. It ensured that Germany would not import more than she could pay for with her exports and that she could direct the flow of her exports to those countries which were prepared to accept her goods and whose goods she wished to buy in return. Without this control it is hardly conceivable that Germany could have maintained so high a rate of internal expansion as she did in 1934-36 and after, on the basis of so small a volume of imports. Nor could she have carried through the financial operations on which the Four Year Plan was based.

^{1/} In many cases manufacturers were unable to obtain the raw materials which they had been accustomed to use or found their supplies rationed. The small man, especially the handicraft workers whose requirements were easily overlooked, tended to come off worst.

4. Stabilization of Prices and Wages

The recovery formula of the Nazis called for an extension of production, but for a strict maintenance of existing wage and price levels. Exception was at first made in favor of farm prices which were to be re-adjusted upward, but after 1934 even agricultural prices were to be subject to the general rule.

On the whole, the Nazi government succeeded in maintaining wages at the level existing at the beginning of 1933. Wage rates during 1934 were regulated by wage schedules taken over from the collective wage agreements concluded before the Nazis came to power. The only substantial difference was that wage scales previously negotiated between workers and employers were now imposed by the Labor Trustees appointed for the thirteen districts into which Germany was divided for this purpose.

The stability of wage rates may be seen from the following table:

Average Wage Rates in Pfennigs per Hour

Class of Workers	Jan. 1 1934	Jan. 1 1935	Jan. 1 1936	Dec. 1 1936
Male Skilled Workers	78.3	78.3	78.3	78.3
Male Semi-skilled Workers	68.1	68.3	68.3	68.3
Male Unskilled Workers	62.1	62.2	62.2	62.2
Female Skilled and Semi-skilled Workers	51.6	51.6	51.6	51.6
Female Unskilled Workers	43.3	43.4	43.4	43.4

Source - Reich Statistical Office.

On the other hand, the control of prices was neither so easy nor so effective. From 1934 on, there were a number of factors which tended to raise wholesale and retail prices as well as rents. Among these factors were the shortage of grain and especially fodder crops, the drastic restrictions on imports of raw materials, the higher costs of substitute

products, the price-raising policies of the cartels, higher prices paid under clearing agreements, the higher taxes, the higher money incomes in the hands of the people, etc. These price raising factors created difficult problems of control with which the government had to cope continuously.

During 1934, the Nazi government issued decrees setting maximum prices for various commodities, and a multitude of government agencies were set up to enforce them. As overlapping and conflicts developed, the government on November 6, 1934, appointed a Reich Commissioner for Price Control whose powers were several times extended to cover more articles. All price increases had to have the approval of the Commissioner.

Still, during 1935, discrepancies developed between the official prices fixed by the government and those actually paid by manufacturers, dealers and consumers. There were various kinds of "concealed" price increases and much "boot-legging", especially in the form of illicit direct dealings between farmers and urban consumers. Also, while many prices remained fixed, inferior goods were substituted for those for which the prices were fixed. Despite all regulations, the indexes of prices for all goods rose during 1935. Even rents began to show an upward trend.^{1/}

^{1/} Rents, after three years of stability, showed a decided upward trend. This applies in particular to cities, where the growth of population has been particularly strong owing to location of garrisons of the new army, or to the construction of arms and munition factories. In the beginning of January, Minister of Labor issued a circular pointing out that any increase of rent would endanger the government's policy of price and wage stability. He threatened with government intervention in case this voluntary restriction of rents should not prove effective. See Douglas Miller, op. cit., 1935, p. 65.

On June 30, 1935, the control of prices was decentralized and handed over to various ministries. Forty-nine price control commissioners (generally the governors of the provincial States) were entrusted with the supervision of the price regulations. Propaganda was intensified for the slogan, "Production Boom, (Mengenkonjunktur) but not Price Boom (Preiskonjunktur)". But the problems persisted, and in the fall of 1936, a new Reich Commissioner for Price Control was appointed.

According to official estimates, the cost of living in Germany rose by 5.4% between 1933 and 1936. Conservative unofficial estimates placed the increase between 15 and 20 percent. An idea of the decline in real wages is indicated by the following table.

Table ___ Total and Average Per Capita Earnings of Wage Earners

Year	Incomes from Wages and Salaries	Total Number of Persons Employed (Yearly Average)	Labor Money Income per Person Employed
1929	43,000,000,000 R.M.	17,870,000	2,402 R.M.
1932	25,700,000,000	12,580,000	2,039
1933	26,000,000,000	13,080,000	1,985
1934	29,300,000,000	15,090,000	1,940
1935	32,300,000,000	16,000,000	2,019
1936	34,500,000,000	17,160,000	2,006

Thus, after a slight increase in 1935, the average labor income per person employed was still somewhat lower in 1936 than in 1932. In view of the increase in the cost of living, as estimated above, this meant a substantial decline in average real wages.

5. The "Abolition of Unemployment"

At the Nuremberg Congress of the National Socialist Party in September 1936, a "proclamation" was read which claimed that the main objectives of the First Four Year Plan had been obtained and that unemployment had been "abolished". According to the official statistics, the number of registered unemployed in October 1936 had fallen to 1,076,000. This million of unemployed, according to an inquiry conducted by the Ministry of Labor, included an "unemployable residue" of 237,000 persons who could not be employed on account of age, infirmity or other disqualifications. Some 94,000 were found to be not fully employable in their own trade. The number of fully employable was 745,000 but of this latter number only 279,000 were suitable for transfer to other districts with acute labor shortage; of these, only 162,000 were skilled workers. Also, owing to the shift of production to rearmament, there was developing a shortage of skilled workers in the machinery and allied trades.

The claims of the Nazi government were disputed at the time. The facts, in so far as they can be disentangled from propaganda and counter-propaganda, seem to have been as follows:

1. A considerable number of workers were absorbed outside the industrial process. According to the report of the Reich Minister of Labor for 1935, the calling-up of men for military service and the labor service "greatly relieved" the labor market. The total number of workers absorbed outside the process of production has been estimated at not less

than 1.5 million at the end of 1935. Thus, about 45% of the decrease in unemployment from 1933 to 1935 may be attributed to this cause.

Table ___ Absorption of Workers Outside Industrial Production

Scheme	1933-1935		
	Average No. of Workers Absorbed		
	1933	1934	1935
Labor Service	200,000-250,000	200,000-250,000	200,000
Agr. Assistants	(?	(150,000	(150,000
The "Year on the Land"	(?	((
Marriage Loans	150,000	365,000	523,000
Additional Domestic Servants	100,000	170,000	180,000
Total	450,000-500,000	885,000-935,000	1,000,000-1,100,000
Inc. Military Service			1,500,000

Source: Institute für Konjunkturforschung, Wochenschrift, 21 March 1936

2. The average hours of work, after rising slightly in 1933, remained more or less stationary in 1934-35.

3. The total increase of employment and decrease of unemployment was greater during 1933-34 than during 1935-36, as may be seen from following figures:

Year	Total Number Employed	Total Number Unemployed
1932	12,518,000	5,575,000
1933	13,016,000	4,804,000
1934	15,041,000	2,718,000
1935	15,949,000	2,151,000
1936	17,097,000	1,593,000

4. The increase in employment took place chiefly in a few industries. From the middle of 1933 to the middle of 1936, about 80% of the total increase in employment took place within the capital goods industries, 45% of the increase falling within the building trades with their subsidiaries. The increase of employment among workers in trade and transport was 17% and only 14% among salary earners.^{1/} Seven branches of industry contributed toward the absorption of some four million unemployed up to the end of 1936.

5. As the public works schemes of 1933-34 reached completion, there was a slowing up of reemployment. In fact, during the last months of 1935, there was a rise in the number of registered unemployed. But reemployment was greatly stimulated by the progress of the rearmament program in 1936.

^{1/} Reichskreditgesellschaft, "Germany's Economic Development at the Turn of 1936-37" p. 31.

6. Production and Consumption

As already pointed out, the years 1935-36 saw an accentuation of the divergence between the production and consumption goods industries. The index of the production goods industries rose from an average of 77.2 for 1934 to 99.4 for 1935, and 119.3 in October 1936 (1928 = 100). The index of output of the consumption goods industries advanced from 91. for 1935 to 102.4 in October 1936. The main explanation lies in the fact that the secondary effects of the work creation schemes in the field of consumption were weakened by the shortage of raw materials and the rise in prices on the one hand, and by rearmament on the other, as a result of which a considerable fraction of the newly created incomes were diverted by means of taxation and loans to the production goods industries. It should further be noted that in the statistics of every country, armaments are included under the heading "production goods" (a typical example being iron and steel), but that this is misleading as regards the economic significance of armaments. Increased output of production goods means that at some later date the national economy has more or better consumption goods at its disposal. This is by no means the case when armaments are manufactured.^{1/}

^{1/} Grebler, op. cit. The Report for the first half of 1936 of the Reichskreditgesellschaft explains in a similar way that the "humble place" which the consumption goods industries had in the revival of these years was due to the fact that the general level of wages was kept constant while there was a rise in the price of foodstuffs. Difficulties with regard to the balance of payments and the supplies of foreign exchange cut down the possibilities of imports. In some cases, as in the textile trades, legal limitations were imposed on the total output,

In brief, while national income increased,^{1/} consumption was kept down by stabilizing wages, encouraging voluntary savings, imposing forced savings and by the other devices described in the preceding Sections.

^{1/} The following figures indicate the relations of investment and/or income during 1935-36, and may be compared with the similar figures given earlier for 1933-34.

Year	National Income	Gross Investment	Net Investment
1934	52,700,000,000 R.M.	8,300,000,000 R.M.	2,400,000,000 R.M.
1935	58,600,000,000 R.M.	11,600,000,000 R.M.	5,600,000,000 R.M.
1936	65,600,000,000 R.M.	13,800,000,000 R.M.	7,600,000,000 R.M.

IV.--THE SECOND FOUR-YEAR PLAN
(October 1936-August 1939)

Some students of German economic developments have pronounced the First Four-Year Plan an unqualified success. To quote one of them:

"By the autumn of 1936 the success of the First Four-Year Plan was no longer in doubt....the economic circuit had been closed. Initially, the State orders provided the demand for the work at a time when effective demand was almost paralysed and savings in the aggregate were non-existent; the Reichsbank supplied the money funds needed for investment; investment drew the unemployed into work; and work created the incomes, and therewith the savings, out of which the short-term indebtedness previously incurred was able to be carried and, in a certain measure, to be funded."^{1/}

But such favorable summaries ignore the questionable aspects of the developments of 1933-36, as sketched above, and overlook the serious difficulties which they created for the Nazi government. The chief difficulties were the shortage of foodstuffs and of raw materials (textile fibers, iron ore, etc.) due to the decline of imports, the slowing up of the favorable trade balance as a result of increasing obstacles to export trade, the continued growth of the floating debt, the disequilibrium between the production and consumption goods industries, and the unsatisfactory functioning of the price control

^{1/} Guillebaud, op. cit., p. 101.

system. By the summer of 1936, internal stresses were acutely felt. The peasants were complaining because the prices of their produce were being kept down despite shortages. The wage-earners were grumbling because a high level of employment was not bringing higher money wages or better consumption. The business men were discontented with the expansion of State industry at the expense of private enterprise, with the increasing government debt, and with the growing rigidity of State intervention.

There was much discussion in the German press as to the next steps (such as devaluation of the mark) when in September 1936, at the Nuremburg Party Congress Hitler announced the Second Four-Year Plan. With this announcement, the second stage in the economic development of Nazi Germany was ushered in.

1. Autarchy and Planning

As stated by Hitler, the Second Four-Year Plan had the main purpose of making Germany self-sufficient in essential food-stuffs and raw materials and of providing a larger basis for increasing employment. Hitler's declarations may be summarized as follows:

The expansion of production and of the national income had increased the demand for consumption goods and the need for raw materials. There was thus need for increasing the "food-basis" of the German people within German territory. But it was even more necessary to free Germany from dependence on foreign industrial materials and to increase the supply of consumption goods by widening and extending the raw materials which could be obtained within the territories of the Reich.

Every mark saved through home production of industrial raw materials could be used for the importation of other articles. The larger the extent to which Germany could supply her own needs in raw materials, the more she would be able to import articles of comfort and luxury and thus raise the standard of living of the people. Furthermore, this scheme of developing the home production of agricultural and mineral raw materials (or substitutes for them) would provide a means of employment on a large scale in the consumption goods industries after the investment needs of the production goods industries (associated with rearmament) had been satisfied.

Hitler thus stressed the standard of living and employment aspects of the plan. But various observers at the time pointed out that Autarchy in agricultural and industrial raw materials was an essential part of the Nazi military program and "a logical continuation of Germany's rearmament."

It was also pointed out at the time that Germany was taking a long step from mere "pump-priming" by means of public works to an increasingly comprehensive "planned economy" of the totalitarian type. "From the outset," wrote one observer, "the Nazi Four-Year Plan was not a collection of rigid and definite production programs covering all sides of economic life... From a definite program the Plan is developing into a kind of general slogan intended to spur the nation's economic energies. General Loeb, one of Goering's principal assistants in the execution of the plan, has pointed out that in view of the aims which it pursued, the Plan could never be limited to a period of four years and that it rather incorporated the idea of national socialist

economic leadership for the future generally. In other words, the idea, if it ever existed, that the Plan should be a 'pump-priming' measure after the fulfillment of which private business would again operate on a freer basis, has been definitely abandoned. Planning has become a permanent feature of German economic life as it was expressed in the headline of the Deutsche Bergwerkszeitung of January 26, 1938: "Vierjahresplan ohne Ende".

"It can therefore be inferred from this basic trend toward more 'planned economy' that the sphere of government interference and direct government activity in industry and commerce is bound to expand at the expense of private business. It is true that wherever private business concerns are sufficiently strong financially and can be persuaded or forced to undertake the execution of some of the industrial objectives the administration will avail themselves of the opportunity. Nevertheless, the government's decision to undertake the construction and operation of two of the most formidable industrial projects under the Four-Year Plan--The Hermann Göring Steel Works and the new Volkswagen Works is more characteristic of the driving forces behind the Plan."^{1/}

Both Hitler and Göring stressed the fact that the Plan would for some time mean sacrifices. The worker must put aside his immediate hopes for a higher standard of living; the business men their desire for more freedom of individual action, and everybody their wish for lower taxation. In return, the German people were promised security

^{1/} Douglas Miller, Annual Economic Review, Germany, 1938.

from their enemies in time of war and from industrial fluctuations in time of peace, and in some more distant future, a higher standard of living all round.^{1/}

2. Development of the Plan

The chief raw materials for which independence was sought (exclusive of grains and fats) were textile fibers, mineral oils, iron ore, rubber and non-ferrous metals. The replacement of foreign imports of these materials by their home production represented problems of varying complexity and procedure. It meant in some cases the increased production of substitutes (such as "Kunstwolle" or "Zellwolle" (staple fibres) or "Buna" (synthetic rubber), in other cases the utilization of inferior grades of supply as of iron-ore.

The carrying out of the plan was placed under the control of General Goring. Goring proceeded to set up a separate organization, which was superimposed on that of the ordinary State Departments. Many of the more important posts in this organization were given to military officers of high rank. There was a determination to use methods of war-time control for carrying out the Plan. The Colonels and Major-Generals were certainly not possessed of much economic knowledge but since 1933 an important section of the General Staff had been set up for the study of war economics (Wehrwirtschaft), and they were called upon to carry on the work. Among the more important administrators of the Plan was Colonel Loeb, head of the Raw Materials Section.

The development of the Second Year Plan made necessary large extensions of existing plants and the building of many new plants. The most

^{1/} Guillebaud, op. cit., pp. 107-108.

"grandiose" project undertaken was that of the Hermann Goering Iron Works. While the projects of an autarchic character were being put into effect, a further impetus to economic activity was given in the latter part of 1937 by the announcement of great construction plans for the complete rebuilding (over a period of 10 to 20 years) of Berlin, Hamburg and other cities.

However, before the Second Four-Year Plan was half-way advanced, the Nazi government embarked upon the political and military enterprises which culminated in the present war. In March 1938, Austria was annexed; in October 1938, the Munich agreement was effected and the Sudetenland was made part of Germany; in March 1939, Czechoslovakia was absorbed by the Reich, and in August 1939, the invasion of Poland took place leading to the declaration of war on September 3, 1939. As a result of these political developments, the execution of the Second Four-Year Plan was complicated by measures taken for adjusting the economy of Austria to the needs of the Reich, by the reorganization of the economic resources of Czechoslovakia, etc. Furthermore, the data needed for judging the degree of success of the Second-Year Plan, especially with regard to the output of various substitute products, are not available.

In view of these facts, no attempt can be made here to assess the performance of the Second Four-Year Plan. All that is attempted below is merely to summarize some of the important aspects of its development, in so far as data are at hand. The analysis is concerned with the financing of the plan, and its effects on prices, employment and labor conditions.

3. New Methods of Financing

Data on the cost of the Second Four Year Plan and on total expenditures for Germany's continued rearmament during 1937-39 are very meager. Some idea of the magnitude of these expenditures is suggested by the fact that total taxes and revenue from customs duties rose from 9,700,000,000 R.M. in 1935-36 to 17,700,000,000 R.M. in 1938-39, and that the declared debt of the Reich increased from 14,372,000,000 R.M. in 1936 to 30,676,000,000 R.M. in 1939.^{1/} Hitler, as is known, declared in one of his recent speeches that Germany had spent 90 billion marks between 1933 and 1939 on her public works and rearmament program. The amounts spent during 1937-39 were larger than during 1933-36.^{2/}

Following its new line indicated above, the Nazi government during 1937-39, obtained an increasing part of the sums needed from taxation. There was a sharp rise in tax revenue as indicated by the figures given above. A larger part of total expenditures was covered by the flotation of consolidation loans. Of the loans issued between January 1937 and May 1938, about 3,600 million R.M. were offered for public subscription. The duration of the loans was increased from 10 to 20 years.

^{1/} The long and medium term debt was declared to be 6,029,000,000 R.M. in 1936 and 19,577,000,000 R.M. in 1939; the short term debt- 2,899,000,000 R.M. in 1936 and 6,535,000,000 R.M. in 1939. See Reichskreditgesellschaft, Economic Conditions in Germany in the Middle of 1939, p. 60.

^{2/} See statistical tables in Appendix.

The Government also made it known that they expected a large part of the financing to be borne by private industries. The ban on the capital market was relaxed. Industry was required to finance its share of the new capital cost out of profits, i.e. plough back undistributed profits into investment. When the capitalization of the Göring Iron Works was increased, for instance, all future users and prospective buyers of steel from these Works were invited to subscribe to the capital of the company. The quota which each industrial manufacturer was expected to subscribe was fixed in advance at 50 marks per worker or employee. The Government counted on the fact that greater business turnover, higher industrial earnings and larger pay rolls were contributing toward a marked increase in the formation of capital which could be used for financing the new program. At the beginning of 1938, Colonel Loeb stated that the firms undertaking the formation of the new enterprises under the Plan had contributed about 30% of the finances required. The capital market, by share of bond issues and by taking over loans, had provided 50%. A further 8% was provided by the banks and 12% was supplied by the Treasury.

During 1937 and up to March 1938, the Nazi Government continued to issue "special bills" for financing its operations. In view of the lack of official figures, the movement of bill portfolios of the Reichsbank and other banks is the only index of the trend. Total bill holdings of the German banking system at the end of October 1936 amounted to 12,510,000,000 R.Ms., and rose to 14,306,000,000 R.M. a year later. Comparing the end of 1932 with the end of 1937 there was a rise of

7,954,000,000 R.Ms. This does not include the bills in possession of private bankers and of industrial and commercial firms. The rate of increase in the form of special bills, however, was somewhat slower in 1937 than in 1936.^{1/}

By the beginning of 1938, it was becoming clear that the use of bills as a means of financing investment, except in the form of short-term, self-liquidating loans for working capital, was reaching its limit, and that a further extension of bank credit was likely to have inflationary effects. In March 1938, a new financial policy was therefore inaugurated. The Reich Government announced through Dr. Schacht that, as from April 1, 1938, no new "special" bills would be issued. It was explained that the method of "interim financing" (Verfinansierung) could be practiced without any great risk as long as it caused a corresponding better utilization of idle industrial capacity and also an increase in the quantity of goods turned over by means of larger currency circulation and expanded credit. But the situation changed radically as soon as industrial operation approached capacity as it did, in varying degrees for the different branches of industry in the course of 1937. The method of financing now called for was that suited to a condition of "full employment". The financing of new investment must now be met out of the tax revenues of the Reich and out of long-term issues placed in the capital market.

As a temporary measure, to tide over the period of transition from the old to the new method of finance, the Minister of Finance was empowered

^{1/}Reichskreditgesellschaft, Germany at the Turn of 1938-39, p. 88.

to issue six-monthly "delivery bills" (Lieferschatzanweisungen) for payment of public contracts. The intention was that the volume of those bills outstanding should not be larger than could be fully repaid on maturity without the need of prolongation. The new bills were not to be eligible for rediscount with the Reichsbank, but would be accepted as collateral from the banks to 75 percent of their value and at 5% interest.^{1/}

The methods of financing the Reich's huge expenditures by means of "delivery bills" failed to function satisfactorily. Soon after the change in financial policy was announced, came the incorporation of Austria and of the Sudetenland. Far more 'delivery bills' had to be issued than had been expected and further expansion of central bank credit continued. During the latter part of 1938, two long term loans were issued totaling 3 billion marks. The Second loan was undersubscribed, and the banks had difficulty in placing their quotas. The capital market was obviously overtaxed, the bond market was depressed, and the Reichsbank had to step in to resume open market operations in support of sagging bond prices.

On March 20, 1939, a new plan was promulgated for financing the Reich's expenditures. The basic idea of this plan was to spread the cost

^{1/} The significance of this change can hardly be over-stressed. It meant the official recognition of the fact that new incomes and savings could no longer, as in the past, be created as a result of the creation of additional money, and that for the future the role of money in the capital market must be limited to acting as the mechanism for the transfer of savings to the investment market. Henceforward, and so long as these conditions should last the German economic system was to function according to the rules of full employment. Guillebaud, op. cit., pp. 127-129.

of the Reich's program of armament, road building and general reconstruction over many years by the issue of tax certificates (Steuergutscheine), anticipating future tax revenues.

Under this plan, extraordinary expenditures of the Reich, States and municipalities, railroads and other public authorities were to be paid as follows: 60% in cash and 40% in tax certificates of class I and II which would be accepted in payment of taxes after 6 and 36 months, respectively. The presumptions on which the success of this plan was based were: 1. growing liquidity of industrial concerns, 2. their ability to hold the tax certificates in order to benefit from taxation privileges resulting from the possession of these certificates over a period of years. The issue of new tax certificates were discontinued as of November 1, 1939, and the Reich again resorted to straight short-term borrowing in the form of Reich bills and Treasury notes.

However, all these plans had little time in which to prove their workability. Within a few months Germany was at war. Its financial condition in August-September 1939 was strained but the story of how the situation was met is not part of this Report.^{1/}

^{1/} On June 15, 1939, a new Reichsbank law was passed which confirmed the development of the past few years under which the Reichsbank was converted from an independent bank of issues to an instrument for carrying out Nazi economic and financial policy. The new law subordinated the Reichsbank to the Reich Chancellor, and provided that the Chancellor alone had authority to determine the amount of credit which the Reichsbank might extend to the Government. All existing formal restrictions and guarantees limiting Government borrowing from the Bank were removed.

4. The "Price-Stop" Decrees

In view of the needs of the Second Four-Year Plan, the Reich Government made a new and more determined effort to keep prices stable. On November 21, 1936, a "price-stop" decree was issued which was followed by an executive order to the same effect on November 30, 1936. The decree prohibited any increase in prices of commodities or services above the level of October 18, 1936, though some exemptions were allowed. The decree was to be enforced by the Reich Price Commissioner (whose office was reestablished on October 29, 1936).

Price control was exercised rigidly during 1937-38. It amounted practically to an elimination of market price as determined by supply and demand factors. The prices fixed allowed for costs plus a reasonable profit to the producer, and costs were strictly supervised.^{1/} Retail prices of consumers' goods were kept down by reducing the operating margins of the distributors. From time to time, prices were forcibly reduced in various branches of industry where the Price Commissioner thought that costs could be lessened by better utilization of plant and otherwise.^{2/} In so far as prices were affected by changes in world prices of imported goods,

^{1/} Herr Wagner, the Reich Price Commissioner, claimed that market price was being supplanted in Germany by "economically justified price" (Volkswirtschaftlich Gerechtigter Preis).

^{2/} According to the Institut für Konjunkturforschung, the savings to consumers from price reduction in 1937 amounted to 300 million R.M. (about 1% of total retail sales estimated at 31 billion R.M.)

adjustments in German domestic prices were made.

5. Labor Shortage and "Labor Regimentation"

The development of the Second Four-Year Plan and continued rearmament were accompanied by a further increase of industrial production. Capital goods industries continued to lead in the spectacular expansion. The index of production rose from 106.7 in 1936 to 116.7 in 1937 and to 124.7 in 1938. In 1938, industrial production was higher by 28% than in 1928, while in the first three months of 1939, it was 32.7% greater.

The increase in production called for the employment of additional labor. The number of insured wage earners and salaried employees in the former Reich reached the level of 20,800,000 in the autumn of 1938, which was about 1,200,000 higher than in the autumn of 1937 and more than $7\frac{1}{2}$ million higher than at the low point of the slump in October 1932. By May 1939, the number of insured workers and salaried employees in the former Reich was 21,600,000. The number of unemployed which had fallen to about 500,000 by October 1937, decreased to 164,000 in October 1938. Of these only about 88,000 were regarded as fully employable. Even seasonal unemployment was low, having decreased from 1,052,000 in December 1937 to about 456,000 in December 1938.^{1/}

^{1/} Reichskreditgesellschaft, Germany in the middle of 1939.

The problem in Germany was no longer that of unemployment, but of labor shortage. There was a general dearth of workers, but especially of skilled workers and of agricultural laborers. The labor shortage in agriculture was due to a new "flight from the land" which was developing as a result of the attraction of the new industrial projects and higher wages in industry.

To overcome the scarcity of labor which was said to be endangering the success of the Four-Year Plan, the Nazi Government adopted a number of measures which were intended to mobilize all the labor power of the country. In doing so, the Government threw to the wind some of the cherished Nazi principles and put aside some of the objectives for which it had presumably come into existence. The chief measures of the Government for the mobilization of labor power may be summarized as follows:

1. To meet the scarcity of farm labor and of domestic servants, a decree was issued in February 1938 forbidding girls under 25 years of age, who had not worked for one year on a farm or in a private household, to accept employment in textile mills and certain branches of industry. Labor decrees restricted the movement from one job to another throughout the entire field of agriculture and forestry. At the same time, steps were taken to encourage the building of farm laborers' houses, to improve

their working conditions, to train them for their work,^{1/} and to provide them with better recreational facilities. In 1939, the farms were reinforced with foreign workers, with members of the Labor Service, the Hitler Youth and similar organizations and even with workers from industry and with men from the Army.

2. Encouragement was given to women to return to work. Women who originally had been relegated by the Nazis to their kitchens and nurseries were increasingly mobilized for industrial work. Between October 1934 and October 1937, about 830,000 women returned to industrial and other gainful employment. At the end of 1937 it was announced that marriage loans would be granted even though the wife continued in employment. This caused difficulties for those dependent on domestic servants, and in February 1938 the decree referred to above under (1) was issued. Between the middle of 1938 and 1939, about 600,000 more women workers were added to the gainfully employed labor force of the country.

3. The Nazis abandoned their policy of "middle class protection" which had been so material in gaining adherents among small tradesmen and handicraftsmen before the Nazis came to power. They began pointing to the "excess capacity" of retail trade intimating that the best these

^{1/} In November 1937, the Agricultural Estate introduced a system of training for agricultural laborers designed to give the latter the recognized status of a skilled craft. The plan envisaged a two years' special course, leading up to a technical examination, on the lines of the "master's" examination in the skilled handicraft occupation.

"superfluous" small independents can do is to give up a hopeless job and to join the ranks of the industrial proletariat.^{1/}

4. The Nazi Government relaxed the protective labor laws in various ways with regard to retirement, hours of work, etc. About 100,000 elderly persons who would have retired under normal conditions were continued in employment. Hours of work were extended. In the building and machinery trades all legal limitations on hours of work were suspended. Factories which had been operating on one or two shifts were worked two and three shifts.

5. Large numbers of foreign workers, especially of agricultural laborers, were imported from Italy, Poland, Hungary and other countries. The total number of foreign workers employed in Germany during the period from April 1937 to March 1938 was 380,000. (With the incorporation of Austria and the Sudetenland a substantial number of these workers -- estimated at nearly 70,000 Austrians and about 100,000 Sudeten Germans -- ceased to be foreigners and became German citizens).

^{1/} In this connection the following remarks are made in the Report of the Reichskreditgesellschaft on Germany at the turn of 1938-39: "The Reich Handicraft units during the two-year period from April 1936 to April 1938 was reduced by 104,000 by the transference to industry of the craftsmen concerned as skilled workers, assistants or foremen ... Among small producing firms and in the field of retail trade there is still a certain amount of under-employment and excessive personnel, and steps are being taken (partly in connection with the process of Aryanisation) to eliminate this" pp. 52-53.

6. To increase the supply of skilled workers, especially in the building and machine trades, all firms in these industries employing more than ten persons were required to train additional apprentices. The ratio of apprentices to skilled workers was determined by the Reich Employment Board. Any firm whose circumstances were such that it could not take on the appropriate number of apprentices had to pay a levy of 50 marks per apprentice to the Board. The contribution was used for the training of apprentices in some other place. Furthermore, every apprentice in any craft was to receive general instruction in iron and wood work before starting upon his special training. In order to increase the number of qualified workers (civil engineers, scientific workers, etc.), it was decided to lower the school leaving age by one year in the secondary schools. In addition, a series of measures were taken for the retaining of persons who had long been out of work.

The measures listed above were intended to increase the supply of labor. But there was also the problem of controlling the flow of labor into the most desirable channels. Aside from the shortage of skilled and semi-skilled workmen, the government was seriously concerned about the fact that manufacturers and contractors were trying to "entice" workers from their competitors by offering them all kinds of privileges and advantages which virtually amounted to an increase in wages, which was strictly prohibited. This threatened to upset the equilibrium of the German wage and price structure. Besides, by resorting to such practices,

firms working for the private market and producing "non-essential" goods were able to tempt workers to give up their present jobs and thus possibly lure them away from factories working on armament and other public orders. And, as already pointed out, there was the "flight from the land", which added further difficulties to the problem.

The Nazi government tried to meet the situation by issuing a series of decrees and regulations which practically deprived labor of its freedom of movement and "regimented" it for the needs of the government program. One of the first actions taken by General Goering in his capacity of Reich Commissioner for the execution of the Four Year Plan was to issue, under date of November 7, 1936, six decrees dealing with the question of skilled labor. One of these decrees forbade all enterprises in the iron, steel, and metal industries to increase the number of their workmen by more than ten within a period of three months without permission of the Labor Office (Arbeitsamt). The purpose of this regulation was to prevent the employment of additional labor on such jobs as were not considered of importance to the national interest. Another decree encouraged the increased employment of salaried employees in the higher age groups. A third ordered contractors and construction firms to notify the competent labor authorities about all building projects on which they intended to start work. A fourth measure was the decree intended to mobilize skilled metal and building trades workers who, for some reason or other, were employed on other jobs than those for which they had been trained. Employers were to

notify the Labor Office of all such men in their employment. If, subsequently, such a worker was notified by the Labor Office of a suitable job in another concern, in line with his original occupation, he could leave his employer without giving notice.

While the decrees of November 1936 restricted the "migration" of labor between jobs and employments, the ordinance issued on February 11, 1937, by the President of the Reich Unemployment Board, virtually tied certain categories of workmen to the factories and works in which they were working at the moment. The ordinance applied to all skilled and semi-skilled workmen in the metal and machine trades. It provided that these workers could be engaged only by public and private enterprises on written permission from the competent labor office. This meant that a worker could not accept another and better position in his trade unless he had secured such a permit in advance. The new regulations gave the labor offices, for the first time, a monopoly of employment placement over a wide range of trades. The worker was virtually bound to his present employer and the government was able to undertake a redistribution of labor according to its own plans.

Further steps to mobilize labor for national ends were taken in 1938 and 1939. In the summer of 1938, a Compulsory Service Decree was adopted for securing the necessary labor for tasks of especial national importance.

The main field of operation of this decree was in connection with the rapid construction of the line of fortifications on the Western Frontier. On February 13, 1939, and on March 2 and 10, 1939, further decrees were issued which gave the Ministry of Labor complete control over the employment of labor. These various decrees provided that: (1) every inhabitant of the Reich could be summoned to assist in the performance of tasks which the Commission for the Four Year Plan regarded as of special national importance; (2) the Minister of Labor could abrogate any labor contract when it seemed desirable to do so on grounds of national interest; and (3) new labor contracts could not be entered into without the consent of the Labor exchanges.^{1/}

Thus, by the summer of 1939, German labor had been practically conscripted for national service - The scene was set for the application of a war labor policy after September 3, 1939.

^{1/} In summarizing these measures, the Report of the Reichskreditgesellschaft observes that these far-reaching interventions in the life of the worker are not to be regarded as a normal part of National Socialist labor policy.

V.--The Prevention of Inflation

From the preceding sections it is clear that the German planning program went through several stages, both with regard to objectives and methods. Public works were at first undertaken primarily to reduce unemployment; they were then dovetailed into a program of rearrangement, and finally a scheme for autarchy was superimposed upon them. In the first stage of this program, Government spending was intended to stimulate private investment and enterprise; but it gradually became the chief means of carrying out the program and an integral element of the changing economic structure or, as has been said, "an end in itself".

The extent of Government spending increased steadily between 1933 and 1939, and the spending was directed towards the expansion of the production goods industries. The figures of public investment for 1933-36 were given above.^{1/} In 1937, gross investments amounted to 16 billion R. M. and in 1938 they were increased to 19 billion. The public investments in 1937 amounted to 54 percent of the total. On the basis of the experience of previous "booms", such as that of 1928, it was clear that drastic measures would be necessary if the growing volume of investment was not to provoke a precipitate expansion of general demand leading to inflation. The question is, what were the measures taken to prevent the effects of inflationary finance?

^{1/} See p.

The answer to the question lies in the principal regulations described in the preceding sections of this Report, adopted for the control of consumption and private investment. Briefly, the developments may be summarized as follows:

1. During the first stages of the program (1933-1934), the Government tried to expand effective demand for consumption goods and private investment, but this policy was relinquished as the spending program developed. After 1935, the Government measures were definitely aimed to restrict consumption, to discourage private investment, to limit dividends, and to keep wages and prices stable.

2. To limit consumption demand and to absorb an even larger portion of savings, the Government used increasingly its powers of taxation. The ratio of taxation to national income increased by over 50% between 1929 and 1939. To this must be added the forced savings imposed through compulsory social insurance payments which yielded considerable surpluses after 1935. There can be little doubt that the taxation was maintained at such a level as not merely to absorb what otherwise would have been voluntary savings, but also to limit any increase in consumption.

3. Through its control over the capital market, the Government canalized savings into the desired channels, in other words, saw to it that investment was restricted to projects determined by the State. On the monetary side, the capital market was placed under rigid control.^{1/}

^{1/} For the relevant laws see: "Fünf Jahre Nationalsozialistische Wirtschaftsgesetzgebung", No. 12-12 Vol. XI, 1938, Institut für Konjunktur-Forschung.

Private capital issues were made subject to Government permission and strictly limited. Control of the monetary side was supplemented and reinforced by a stringent supervision of actual real investment. The establishment of new companies, the extension of plant and buildings in practically all important branches of industry, were prohibited, except as the authorities granted exemptions. Through the corporate organization of industry, individual profits were thus utilized for Government purposes.

4. The potential increase of consumption was curtailed by a limitation of dividend payments, but especially by the rigid fixing of wages.

5. When the increase in economic activity and of total demand resulted in a reversal of the favorable balance of trade, the control of foreign transactions began to be used for the conscious management of foreign trade - with a view to prevent the flight of capital and to maintain internal price stability.

6. The stabilization of money wages was accompanied by an extension of control over prices. At first, merely the restriction of increases in prices was attempted. Step by step the Government was forced to extend regulation over the whole cost structure - the system of the so-called Markt-Ordnung. In vital commodities the market mechanism was partly replaced by rationing. Lately this control was extended to other elements of cost. Rigid profit margins were fixed instead of proportionate margins, and though prices of foreign commodities could not be controlled, the impact of their fluctuations was restricted to the minimum. The location of industry was also more and more regulated. As a result of these controls, price movements were very much smaller in Germany than in other countries.

7. Thus, the control of total demand by control of consumption and private investment was supplemented by direct control of production through regulation of prices, supplies and of profit margins. Despite these irksome regulations, the high rate of taxation and other measures, private activity was maintained at the maximum level permitted by the State. One of the reasons for the latter condition may be that the regulation of practically all markets, prices and costs, in conjunction with the steady flow of Government orders virtually eliminated risk. Hence the entrepreneurs were reconciled to a relatively low rate of profit.

8. The high rate of investment resulted in a process of far reaching change in Germany's productive structure. Industries producing capital goods were fully employed, but capacity in consumption goods was not fully employed.

In summing up the German experience, in its bearings on inflation, Guillebaud remarks: "The result has demonstrated in practice the truth that the creation of money (inflationary finance) cannot produce an inflationary rise in the general level of prices, with all its attendant evils, so long as there is an abundant amount of idle resources and unused productive capacity available ... It is true that there are two conditions which must be fulfilled in order that this general proposition may be valid: there must be substantial stability of the level of efficiency wages, and the process of money creation must not be accompanied

by the export of capital on a large scale, i. e. by a flight from the currency. But in the case of Germany both these conditions have in fact been satisfied as a result of direct State intervention".^{1/}

Technically, this statement can not be questioned. It is important, however, to bear in mind that the consequences of the Nazi program were stopped short in September 1939 and have since been overlaid by the developments of the War.

^{1/} Guillebaud, op. cit. pp. 215-216. As pointed out above, in adopting this policy, the Nazis were governed by the necessities of the situation in which Germany found herself in 1933. Since the appearance of Keynes' A General Theory of Employment, Interest, and Money, many Germans have tried to rationalize their official policy by reference to his theories. Independently (in whole or part) of Keynes, German economic writers, such as Richter-Altschäffer, Nahmer, Früning, Föhl and others, have developed theories on somewhat similar lines. But there is no evidence to show that the original policy was influenced at all by abstract theories. Insofar as there could be said to have been an economic theorist of early National Socialism, Gottfried Feder, who belonged to the extreme left-wing of the Party and subsequently fell into disfavour and obscurity, would seem to have the best claim to the title, as indicated previously.

VI.--Reemployment and Standards of Living

The increase in industrial production and employment in Germany from 1933 to 1939 is impressive. However, the attempt to measure the effects of this increase on the well-being of the German people is beset with difficulties. Data on many points are lacking, and the accuracy and meaning of available data are subject to many uncertainties. Interpreters of the German economic situation have thus differed greatly in their answer to the question: what have added activity and employment meant to the German population in terms of their standards of living?

It is not possible to give a complete or definitive answer to this question in this Report. But it may be helpful to bring together some of the essential data as a means towards forming an approximate idea of what the German people gained from the Nazi programs between 1933 and 1939.

To begin with, increased activity resulted in an expansion of the national income. In 1938, the national income was equal to 77 billion marks and exceeded, for the first time, that of 1928 which was 75.4 billion R.M. As the national income in 1932 was 45.2 billion marks, the increase between 1932 and 1938 was about 32 billion marks (about 71%).

However, this increased income was in the form of goods which were not for final consumption by the people. The increase in the

income for consumption during this period was estimated at only about 11 billion marks,^{1/} or only a third of the total increase. During the same period there was an increase in the total population, in the labor supply, and in working hours — all of which means that the shift in the direction of production and in the composition of the national income could not but exert "a tremendous pressure on consumption". These statistical figures bear out the wide-spread comments of many observers on the shortages of consumers' goods and on the state of under-consumption in Nazi Germany.

The distribution of the increased national income indicates considerable disparity in the gains of the different economic groups. This may be seen from the following table:

^{1/} Balogh, *op. cit.* pp. 466-467.

Table ____, Distribution of the National Income in Germany, 1929-1937

(in billions of R.M.)

Income	1929	1932	1936	1937	Percent increase between 1932 and 1937
Wages and salaries	43.0	25.7	35.3	38.8	51%
Profits ^{1/} (industrial, commercial and profes- sional)	12.6	5.5	12.2	14.2	158%
Agriculture and forestry	5.5	3.7	5.5	5.6	51.4%
Incomes from capital	3.3	2.3	2.7	2.8	2%
Annuities and Pensions	9.2	9.4	7.4	7.0	-25%
Rents and Leases	0.9	0.8	1.0	1.0	-25%
Total private income	74.5	47.4	64.1	69.4	47%
Corrections ^{2/}	-1.4	-2.2	-0.8	-1.6	
Totals	75.9 ^{3/}	45.2	64.9	71.0	

- ^{1/} Including undistributed company profits.
- ^{2/} In particular, allowance for deductions via taxation as balanced by profits on public enterprises.
- ^{3/} From this figure tributary payments must be deducted totalling 2,500 million R.M.

Source: Computed by Reich Statistical office - quoted in Report of Reichskreditgesellschaft, 1938 - 39, p. 57.

As is indicated by the above table, the business groups whose income is derived from profits obtained in 1937 an income larger than that of 1929. They had the largest percentage increase of income between 1932 and 1937. Thus, despite irksome restrictions imposed on business concerns, profits were favorable due to the high level of output, guaranteed orders and markets, stable interest rates and fairly stable wages. It is possible

that profits were to some extent decreased in 1938-1939 as a result of increased taxes, subsidies for the export trades, contributions to social welfare, etc., but they probably remained substantial.

The chief beneficiaries among the business groups were the large-scale enterprises. Small and medium-sized enterprises often suffered in comparison with big business, because they did not profit to the same extent from Government orders and could not afford the staff necessary to cope with the maze of bureaucratic regulations.^{1/} This fact was in line with the measures of the Nazi Government which after 1935 abandoned its policy of middle class protection. During 1936-37, the number of small enterprises decreased by about 90,000. The "combing out" of small business in order to obtain a greater labor supply was accentuated during 1938-39.

It is generally claimed that the peasants and farmers benefited most from the Nazi regime. As the table indicates, farm income in 1937 was above that of 1929, and increased 51% between 1932 and 1937. The disparity between the prices farmers pay and those at which they sell was greatly reduced, if not eliminated. Despite the rise in farm income, German peasants were far from satisfied as the system of price control prevented them from taking full advantage of the shortage of many food products. In addition,

^{1/} Foreign Policy Report, May 1, 1937, p. 46.

the Government was putting ever greater limitations on the farmer's economic freedom, and had not carried out by 1939 the reforms it had promised (e. g. with regard to the large estates).

The economic groups living largely from investments in real property or stocks and bonds did not fare as well as those deriving their income from profits or even wages. The income of some of them rose but slightly, while the income of others in this group decreased. Their share of the national income dropped. Government control of rents, reductions in interest rates and the limitation of dividend payments were responsible for this development.^{1/}

The changes in the condition of the wage earning groups were more complex. According to the Reich Statistical Office money wages increased from 12.1 billion R.M. in 1933 to 20.9 billion in 1937 or 72%. But according to the Institute of Business Research^{2/}, in the case of industrial workers 60.4% of this increase was due to an increase in the number employed; 11.3% to lengthening of the working day; 9.7% to promotion to higher-paid posts; and only 18.6% to higher wage rates.

In other words, average and per capita money earnings increased between 1932 and 1937, but remained below those of 1929. According to the Statistisches Reichsamt (Reich Statistical Office), the average hourly

^{1/} Foreign Policy Report, March 1, 1939, p. 292.

^{2/} Quoted in the Report of the Reichskreditgesellschaft for 1938, p. 43.

earnings of German workers increased from 0.70 R.M. per hour in 1933 to 0.76 R.M. in 1937, i.e., 8.5%. The weekly pay increased from 30.7 R.M. to 36.1 R.M. during the same period, or roughly 20%. In 1929, the average weekly earnings were 44.9 R.M., or 24 percent higher than in 1937.^{1/}

During the second half of 1937 and 1938 there was a considerable rise in hourly wage rates in many of the production goods industries. This was made inevitable by the expansion of production and increase in productivity. It is presumed that these increases were in line with the fundamental Government policy that the general level of efficiency wages, as embodied in the basic minimum wage rates in force at the end of 1934, remain unchanged.^{2/} It is also necessary to take into account that the number of workers per family increased and that, as a result, family earnings increased. There were 1.6 wage or salaried earners per family at the beginning of 1933, while by the end of 1936 the number had risen to 1.8, and in view of the scarcity of labor it must have risen in 1937-38.

The net earnings of labor were affected by the increase in its contributions to various funds required under the Nazi regime. It has been estimated that weekly deductions from wages for all purposes increased from 3.8 R.M. in 1928 to 4.9 R.M. in 1937, and wage tax and social contributions

^{1/} Wirtschaft and Statistik, 1938, p. 159; also the Report of the Reichskreditgesellschaft for 1938, p. 44.

^{2/} Guillebaud, op. cit., p. 188.

also increased; the former from 0.90 R.M. per week in 1932 to 1.62 R.M. in 1937, or from 3% to 4 $\frac{1}{2}$ %. It has been estimated that taxes and compulsory social insurance contributions took 33.5% of the national incomes in 1937, as compared with 30.6% in 1932.^{1/} The Reich Statistical Office estimates that, in addition, the average worker pays about 1.5% of his weekly wage to the Labor Front but probably less than one percent in contributions to the Nazi Welfare Organization, the Winter Relief Fund, etc.^{2/}

The increase in real wages in Germany during 1933-39 has been the subject of much controversy, in view of the fact that the official cost of living index is not regarded as reliable (owing to leakages in price control, substitution of goods of inferior quality, etc.). As already indicated, most competent foreign observers estimate that there was a rise in the cost of living of 20 to 25% between 1932 and 1937, and a further rise since.^{3/} There seems no doubt that consumption rose between 1932 and 1938,^{4/} but that the German wage earners had to content themselves with

^{1/} Brinkmann, Staat and Wirtschaft, p. 23.

^{2/} "Die Entwicklung der Arbeitsverdienste in den letzten zehn Jahren", Wirtschaft Statistik, No. 4, 1938. See also "Wandlungen in der Schichtung der Arbeiter- und Angestelleneinkommen" Vierteljahrshefte zur Statistik der deutschen Reiches, No. 3, 1937.

^{3/} Foreign Policy Report, May 1, 1937, p. 43. See also above, p. 58.

^{4/} Retail sales increased from 22.7 billion R.M. in 1932 to 33.5 billion marks in 1938.

inferior goods and forego many of the things they desired. With the development of the rearmament program, there was also an increasing shortage of new dwellings.^{1/}

The condition of those formerly unemployed certainly improved. There was a greater job-security for all. There was also a development of Government provision of recreational facilities through the "Kraft durch Freude" and other means. But this to a large extent was merely a substitute of the facilities formerly provided by the trade unions and voluntary social organizations. As against these improvements there were the longer working hours, the greater intensity of work and the increasing regimentation of the working life of the wage earner.^{2/} It must also be pointed out that Jews and non-Aryans, constituting over 1% of the total population of Germany, suffered greatly from discriminatory legislation and administrative measures taken against them which depressed their standard of life to the lowest possible levels and "no account of the standard living in Germany can ignore this fact."^{3/}

^{1/} The Report of the Reichskreditgesellschaft for 1938-39, says: (pp. 14, 15). "The improvement in general employment and incomes has brought with it a shortage in dwelling houses which has become much more acute during the last few years with the marked rise in marriages since the slump. The present deficiency of dwellings (as measured by the number of families which have not at the moment a dwelling of their own) is estimated at $1\frac{1}{2}$ million".

^{2/} In 1939, the average length of the working day was 7.90 hours, as compared with 6.91 in 1932, but the average concealed considerable variation. The working day for metal workers in 1937 was 8.49 hours, but for textile workers only 7.52.

^{3/} Guillebaud, op. cit., p. 209.

The statistical data given above also indicate that there was an increasing inequality in the distribution of wealth and income in Germany under the Nazi regime. This conclusion is borne out by other studies.^{1/}

^{1/} See Maxine Yapple Sweezy, "Distribution of Wealth and Income under the Nazis", Review of Economic Statistics, Vol. XXI, No. 4, November 1939.

VII. - Concluding Comments.

The German experience of 1933-39 developed under conditions and was marked by features which make it difficult to draw from it conclusions applicable to a relatively free economic system such as ours. The German program, for instance, was carried out under conditions of isolation from the world market though the strict control of exchange movements and under a totalitarian political system entirely foreign to our ideas and ideals.

There are, however, in the German experience a number of suggestive points with regard to social-economic methods and techniques. The most significant of these may be stated as follows:

- (1) The willingness to try new economic expedients.
- (2) The energy and speed with which new methods and plans, once adopted, were applied.
- (3) The way in which the government assumed the initiative in making productive plans and imposed the responsibility for their execution on private enterprise. It readily employed experts and industrialists while retaining final direction and control.
- (4) The way in which the government used its powers to direct investment. Whether the particular channels (rearmament and autarchy) are desirable or not, the methods for controlling the distribution of investment funds are interesting.

- (5) The various methods by which the government both limited and utilized the profit motive as a means to its ends.
- (6) The application of investment to public purpose, if necessary, at lower economic yields on the assumption that the long run results will be justified also from an economic point of view.
- (7) The temporary stabilization of the economic system through the control of costs, investment and foreign trade.
- (8) The strains arising under such a system of economic control, due to the gradual attainment of "full employment", the adverse effects on the standard of living and the "regimentation" of the individual in his economic and social relations.
- (9) The way in which the public works program was used as a basis for "Wehrwirtschaft" and facilitated the transition to a war economy.

From the point of view of present problems the last point is of particular importance - It raises the question whether, and to what extent, the present war planning in Germany is a continuation of the pre-war planning and what it may suggest to us in relation to our own preparedness program.

Appendix: Statistical Tables

Table I. - Employment and Production in Germany 1929-1939

	Employment (000's) <u>1/</u>	Unemployment (000's) <u>1/</u>	Hours Worked (April) <u>1/</u>	Index of Production, 1928 = 100 <u>2/</u>		
				Total	Consumption Goods Industries	Production Goods Industries
1929	17,869	1,892	7.80	100.9	98.5	103.2
1930	16,515	3,076	7.37	85.1	95.4	85.5
1931	14,336	4,520	7.08	66.9	90.6	61.0
1932	12,518	5,575	6.90	58.7	78.1	45.7
1933	13,016	4,804	7.15	65.5	82.9	53.7
1934	15,041	2,718		83.3	92.6	77.2
1935	15,949	2,151		95.8	91.0	99.4
1936	17,097	1,593	7.67	106.7	97.5	112.9
1937	18,354	912	7.82	116.7	102.8	126.0
1938	19,518	429	7.85	124.7	107.8	135.9
1939	21,640 ^{3/}	94 ^{3/}	7.90			

1/ From sickness insurance statistics.

2/ From Institut für Konjunkturforschung Statistik In-und Auslands.

3/ For May 1939. Reichskreditgesellschaft-Economic Conditions in January in the Middle of the Year 1939.

Table II. - Employment and Unemployment in Germany for Selected Years, 1928 - 1939

<u>Yearly Average</u>	<u>Number of Employed</u>	<u>Number of Registered Unemployed</u>
1928	17,436,000	1,391,000
1932	12,518,000	5,575,000
1936	17,110,000	1,590,000
1938 (1st quarter average)	18,378,000	835,000
April	19,400,000	423,000
May	19,857,000	338,000
June		292,000
1939 (1st quarter average)	19,653,000	211,000
April	20,691,000	94,000
May	21,105,000	70,000
June		49,000

From "Wirtschafts - Bericht", published by Commertz und Privatbank July 1939.

Table III. - Prices and Cost of Living in Germany,
1936 - 1938

Year	Wholesale Price Index (1913 = 100)		Cost of Living Index (1913 = 100)	
	Low	High	Low	High
1936	103.6	105.0	124.2	125.4
1937	105.0	106.7	124.5	126.2
1938	105.4	106.3	124.8	126.8

Source: Prepared in the Division of Regional Information of the United States Department of Commerce, Washington, March 1939.

Table IV. - National Income and Investments in Germany, 1928 - 1938

Year	Total National Income	Total Investments	Proportion of Investments to National Income
1928	75,400,000,000	13,700,000,000	18.2%
1929	75,900,000,000	12,800,000,000	16.9%
1932	45,200,000,000	4,200,000,000	
1933	46,500,000,000	5,100,000,000	11.0%
1934	52,700,000,000	8,200,000,000	15.6%
1935	58,600,000,000	11,600,000,000	19.8%
1936	64,900,000,000	13,800,000,000	21.3%
1937	71,000,000,000	16,000,000,000	22.5%
1938	77,000,000,000	19,000,000,000	24.7%

From: "Economic Conditions in Germany in the Middle of the Year 1939" Reichskreditgesellschaft.

Table V. - Taxes and Customs Revenue in Germany, 1929 - 1939

Year (April 1 - March 31)	Tax and Customs Revenue Grand Total*	Taxes on Wages Included in Total of Column 2
1928-29	9,000,000,000 R. M.	1,415,000,000 R. M.
1932-33	6,600,000,000	749,000,000
1933-34	6,800,000,000	730,000,000
1934-35	8,200,000,000	899,000,000
1935-36	9,700,000,000	1,362,000,000
1936-37	11,500,000,000	1,544,000,000
1937-38	14,000,000,000	1,760,000,000
1938-39	17,700,000,000	2,091,000,000

Source: Condensed from "Economic Conditions in Germany in the Middle of the Year, 1939," Reichskreditgesellschaft. p. 58.

*Does not include tax on Jewish wealth, one half of which, amounting to 500 million R. M. was paid over during this period.

Table VI. - Capital Accumulation in Former German Reich

	Annual Increases in Million R. M.				
	1934	1935	1936	1937	1938
<u>I. Long-Term</u>					
1. Savings deposits with all banks	957	1,244	1,084	1,823	2,600
2. Increase in life and social insurance investments	719	889	1,136	1,402	1,600
3. Investments in shares and bonds ^{1/}	38	249	923	1,385	2,700
Totals	1,714	2,382	3,143	4,610	6,900
<u>II. Short-Term</u>					
1. Bank deposits	1,059	819	1,239	1,007	2,800
2. Tax Certificates, Treasury Bonds, and Special Bills ^{2/}	- 356	- 162	409	156	- 600
3. Cash Holdings	257	401	591	535	1,060
Totals	960	1,058	2,239	1,698	3,260
Grand Totals	2,674	3,440	5,382	6,308	10,160

^{1/} Calculated by Reich Statistical Office; 1938 figures estimated on a similar basis from data published by the Business Research Institute. (Weekly Report, 1938, No. 51/52.)

^{2/} Not including holdings of the banks - i.e., covers securities with business and the public only.

Source: "Economic Conditions in Germany in the Middle of the Year 1939," Reichskreditgesellschaft, p. 56.

Table VII. - The German Capital Market, 1926 - 1938

<u>New Issues - In Millions R. M.</u>			
<u>Year</u>	<u>Public Loans</u>	<u>Loans to Private Enterprises</u>	<u>Stocks and Shares (Cash issue price)</u>
1926	1,163	323	988
1927	714	181	1,438
1928	663	294	1,339
1929	520	8	979
1930	529	35	555
1931	65	1	635
1932	248	10	150
1933	71	2	91
1934	75	4	143
1935	1,636	3	156
1936	2,670	47	395
1937	3,150	258	333
1938	<u>7,744</u>	<u>107</u>	<u>822</u>
Total 1933-1938	15,046	421	1,940
1938 Jan.-April	3,481	65	116
1939 Jan.-March	1,300		113

Source: "Economic Conditions in Germany in the Middle of the Year 1939", Reichskreditgesellschaft, p. 52.

Table VIII. - Loans of German Reich
1935 - 1938

4 1/2 Issues (In Million R. M.)	Amounts Issued		Period in Years	Amounts Outstanding October 31, 1938 ^{1/}
	Total	Publicly Offered		
Loans: 1935	846.8		27	793.7
Loans: Second Series	1,078.6		27	1,034.5
1937	637.3		27	624.9
1938	1,270.5		27	1,270.5
Reich Railway Bonds, 1936	500.0	500.0	8	500.0
Redeemable Treasury Bonds:				
1935	500.0	500.0	10	463.1
1936, First Series	98.0		10	98.0
Second Series	700.0	500.0	12	670.4
Third Series	600.0	500.0	12	600.0
1937, First Series	700.0	600.0	12	700.0
Second Series	800.0	700.0	15	800.0
Third Series	850.0	750.0	15	850.0
1938, First Series	1,400.0	950.0	18	1,400.0
Second Series	1,966.0	1,200.0	20	1,966.0
Third Series	1,840.1	1,200.0	20	1,840.1
Fourth Series	1,500.0	1,500.0	20	- ^{2/}
Total	15,287.3	8,900.0		13,611.2
4 1/2 Debt Certificate Loan, 1935	264.1			264.1
	<u>56.7</u>			<u>56.7</u>
Grand Total	15,608.1	8,900.0		13,932.0

^{1/} After deducting amounts redeemed.

^{2/} Not issued until November 28, open for subscription up to January 9, 1939.

Source: Germany's Economic Condition at the turn of 1938/1939, Reichskreditgesellschaft, p. 92.

Table IX. - Declared Public Debt of German Reich, 1928 - 1939

Debt Outstanding (In Millions R. M.)	Old (Pre 1924) Debt	Foreign	Domestic		Total
			Long and Me- dium Term	Short Term	
March 31, 1928	5,560	884	500	187	7,131
1933	4,422	3,003	2,751	1,514	11,690
1934	4,239	2,026	3,596	1,932	11,793
1935	3,917	1,773	4,358	2,404	12,452
1936	3,766	1,678	6,029	2,899	14,372
1937	3,622	1,442	8,611	2,383	16,058
1938	3,466	1,333	11,954	2,345	19,098
1939	3,307	1,257	19,577	6,535	30,676

Source: "Economic Conditions in Germany in the Middle of the Year 1939", Reichskreditgesellschaft, p. 60

Table X. - Money Rates in Germany, 1931 - 1938

Year (Monthly Averages)	Reichsbank Rediscount Rate %	Private Discount Rate %	Call Money %
1931	6.91	6.78	8.37
1932	5.21	4.95	6.23
1933	4.00	3.88	5.11
1934	4.00	3.77	4.68
1935	4.00	3.15	3.77
1936	4.00	2.96	3.18
1937	4.00	2.92	2.92
1938 (October)	4.00	2.88	2.90

Source: "Germany's Economic Condition at the Turn of 1938/1939,"
Reichskreditgesellschaft, p. 87.

Table XI. - Germany's Foreign Trade, 1928 - 1938

A. - Former Reich only, exclusive of Austria (In Millions R.M.)

Year	Imports	Exports	Balance
1928	13,769	11,851	-1,918
1929	13,425	13,042	- 203
1933	4,146	4,751	605
1934	4,385	4,060	- 325
1935	4,088	4,162	74
1936	4,141	4,660	519
1937	5,375	5,788	413
1938	5,449	5,257	- 192
1939 1st quarter	1,289	1,262	- 27
1938 " "	1,383	1,339	- 44
1937 " "	1,070	1,257	187

B. - Greater Germany (In Millions R.M.)

Year	Imports	Exports	Balance
1937	5,943	6,271	328
1938	6,052	5,619	- 433
1939 1st quarter	1,470	1,354	- 116
1938 " "	1,502	1,445	- 57

Source: Reichskreditgesellschaft, "Economic Conditions in Germany in the Middle of the Year 1939", pp. 32-33.

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