

This PDF is a selection from an out-of-print volume from the  
National Bureau of Economic Research

Volume Title: Nazi War Finance and Banking

Volume Author/Editor: Otto Nathan

Volume Publisher: NBER

Volume ISBN: 0-87014-335-2

Volume URL: <http://www.nber.org/books/nath44-1>

Publication Date: April 1944

Chapter Title: The Sources of Government Revenue

Chapter Author: Otto Nathan

Chapter URL: <http://www.nber.org/chapters/c9478>

Chapter pages in book: (p. 27 - 65)

## THE SOURCES OF GOVERNMENT REVENUE

The Nazi treasuries received their income both from sources usually accessible to governments and from extraordinary sources. Revenue was derived from taxation, administrative income, income from public property and increase in debt — the normal channels through which part of the national income is directed to public authorities. In addition, the Nazi government secured considerable amounts through “voluntary” and involuntary contributions — a conglomeration of fees, levies, collections and contributions of all kinds imposed upon the population both of Germany and the occupied territories. Finally, the governments of invaded countries were made to pay huge amounts to cover the “cost of occupation.”

As far as the system of taxation and the different types of administrative income are concerned, the Nazi government did not make any novel or startling departure. It kept these measures within the limits of well-established practices of public finance. Since we are not concerned in this study with a detailed analysis of the German financial apparatus, we shall limit ourselves to describing merely the changes in the system of taxation introduced by the Nazis. We shall want to deal in somewhat greater detail with the methods and techniques which they applied in increasing the public debt and in raising funds through all kinds of “contributions” and fees. In this they were really original and inventive.

### TAXATION

#### *The German Tax System at the Beginning of 1933*

The tax system existing toward the end of the Weimar Republic was based mainly upon the so-called Erzberger Tax Reform of 1919-20. This reform transferred significant tax powers from the states to the Reich and established a centralized tax policy. The Reich, previously dependent chiefly upon customs and excise duties, acquired authority to levy taxes on income and property (wage tax, income tax, property tax) as well as many taxes on trade (turn-over tax, transportation tax, motor vehicle tax, land purchase tax, etc.). State and local authorities for the most part retained only taxes on real estate (land and building tax) and gross business receipts (business tax). To these were added a few small consumption taxes (taxes on meat, beverages, etc.) and, after the inflation period,

the tax on landlord's inflation gains (called the house-rent tax in Prussia). In return for the taxes surrendered, state and local authorities received part of the tax receipts collected by the Reich deliberately in excess of its own requirements. They thus shared on a percentage basis in the Reich receipts from the income, wage, corporation and turnover taxes. The entire yield of some smaller taxes (land purchase tax, and tax on racing bets) was also turned over to the state and local authorities after deduction of a percentage for cost of collection.

The principal features of this tax system remained unchanged during the entire period from 1920 to 1933. The Erzberger Tax Reform had been based on the principle that all potential tax sources must be utilized. Accordingly, the new tax system left no part of the field uncovered and later offered little opportunity for the introduction of new taxes. The most important Reich taxes at the beginning as well as the end of the period were: the income tax, general property tax, turnover tax, tobacco tax and customs duties. The most significant additions to Reich taxes during the period from 1920 to 1933 were: (a) the special assessment on industrial property (1924), originally levied to raise fixed annual sums for reparation payments, and (b) the crisis tax (1931), proceeds of which were to defray part of the unemployment burden. The most important addition during the same period in the local financial system was the citizen tax (1930). The total receipts from all taxes and customs duties rose sharply before 1929, and declined severely during the depression. During the fiscal year 1932-33 over 10 billion reichsmarks were collected in taxes, nearly 7 billion reichsmarks by the Reich and over 3.5 billion reichsmarks by the state and local authorities. After apportioning the funds, the Reich retained less than half of the total tax revenue.

#### *General Tax Measures to Increase Public Revenue, 1933-39*

After the Nazis seized power, they did not change the system of taxation to any considerable extent. The retention of the existing tax system may be partly explained by the fact that the Nazis inherited a tax system of great flexibility. Because of its comprehensiveness large additional tax revenues would automatically accrue with a rise in national income. The basic principles of the system

were conceived at a time when Germany was confronted with an unknown amount of reparation payments; they were designed to tap considerable amounts of the national income for this purpose. After this expenditure had been eliminated in 1932, the existing tax system was in a position to yield large amounts of revenue to finance preparations for a new war as soon as Germany would be able to increase her national income and to curtail the outlay for unemployment. As the financial requirements for military preparations increased, the "automatic" growth in government revenue no longer sufficed. Changes in the tax system became necessary to augment the income of the Reich government. A significant part of the increase in tax receipts resulted from making the tax administration more effective; another part came from increases of existing, and the introduction of new, Federal taxes; and a third part from changes in the tax system of state and local authorities.

#### (a) Improvement of Tax Administration

Because of the extreme power it exercised over taxpayers, the Nazi government could improve the effectiveness of the tax administration with comparative ease. The Under-Secretary in the Treasury candidly summed up the matter when he stated that the obligation to pay taxes was based not upon a *legal* relationship between the taxpayer and the Treasury, but upon a *power* relationship between the State and the people. While the government under the Weimar Republic was anxious to protect the taxpayer by law against arbitrariness of the tax administering authorities, the Nazi government was responsible for a systematic deterioration in the position of the taxpayer in relation to the government. The taxpayer not only lost all influence upon tax legislation, but also upon the administration of taxes which he had participated in under the Republic. The Treasury was empowered to change tax laws by decrees and ordinances, while tax lawyers and tax advisers were practically made into an arm of the tax authorities.

A striking example of the Nazi attitude toward the taxpayer is found in the first paragraph of the Tax Adaptation Law of October 1934<sup>48</sup> where the following rule is laid down: "The tax laws are to be interpreted according to the National Socialist *Weltanschauung*."

<sup>48</sup> *Reichsgesetzblatt* (1934) I, p. 925.

However curious this statement may sound, it had a very special significance. It is a general clause which gives the Collectors of Internal Revenue and the courts a high degree of discretion. This authority was used to administer tax laws to yield the greatest possible amount of revenue. Any attempt at evasion or avoidance of tax payment, even if permissible under the law, could be thwarted. Concealed profit distributions and secret reserves could now be taxed. Official tax reappraisals could be arranged so as to lead to additional burdens. In imposing penalties for tax deficiencies the authorities were supposed to evaluate the general conduct of the defendant as a citizen — from a Nazi point of view. Finally, this provision enabled the tax administration to reinterpret pre-Nazi tax laws in the interest of the Nazi State and thus to extract additional revenue on the basis of old tax regulations. It was thus a source of almost unlimited discretionary power.

The Reich Tax Administration was first established in 1919. Disorganized during the inflation period, its reorganization was begun in 1924 and had not been quite completed when the Nazis seized power. The Nazi government made the Tax Administration, which had been well built up by its predecessors, even more efficient by increasing the personnel, improving their training, and perfecting the system of assessment and collection. This system was improved in several ways. Accounting and bookkeeping requirements were made more stringent. Small businessmen, not usually forced to keep books, were required after 1935 to keep an entry book for goods received; after 1936 the wholesale trade was forced to record all goods sold. These measures, in conjunction with the general increase in state supervision, led to a more satisfactory determination of actual turnover, profits, and incomes, particularly of small business units and agriculture. The Book and Plant Inspection Service and the general inspection of factories for tax purposes, already well developed before 1933, were further improved. The regular and thorough inspection service of the Nazi administration resulted in a considerable increase in tax revenue. In addition, a new real estate inventory, introducing uniform standards for the whole Reich, was authorized on October 16, 1934; it had not been completed when the war started. Besides being used for taxation purposes, this inventory formed an important basis for planned land utilization and

investment. Finally, entrepreneurs were required to secure a certificate of good standing from the tax authorities as a prerequisite to receiving even small government orders. Lists of dilatory taxpayers as well as tax penalties were widely publicized.

### (b) Increases in Tax Rates

In order to stem the catastrophic decline in tax receipts during the depression, various tax rates were raised and various new taxes were introduced. Not only did the Nazi government maintain most of these tax increases and new taxes; while revising and elaborating some of the tax provisions, they also introduced further increases in tax rates. There was, however, more emphasis placed on many small changes in tax laws than on any general increase in tax rates. A general change in the tax rates was the increase in the rate of the corporation tax. The corporation tax was raised 25 percent for 1936 (from 20 to 25 percent), and another 20 percent (from 25 to 30 percent) from 1937 on. A further increase was ordered for corporate incomes over 100,000 reichsmarks; the tax rate on them was set at 35 percent for 1938, and at 40 percent thereafter.<sup>49</sup>

Several changes were made in the personal income tax. The exemption previously enjoyed by farmers was considerably reduced in October 1934 and many more farmers became liable under the income tax law.<sup>50</sup> Moreover, at the beginning of 1939, additional burdens were imposed upon single persons and childless married couples. The rates for single persons were increased about 12½ percent; the maximum rate was raised from 50 to 55 percent. Rates for childless couples who had been married for five years were increased by about 40 percent. At the same time, the tax allowance for the employment of domestic help was abolished, the privilege of deducting the church tax from taxable income was cancelled, and the lump sum exemption from the assessed income tax against expenditure for professional purposes and for special costs was rescinded.

### (c) New Taxes

Besides increasing tax rates, the Nazis introduced two new taxes to increase the government's revenue, the defense tax and the income

<sup>49</sup> *Ibid.* (1938) I, p. 952.

<sup>50</sup> *Ibid.* (1934) I, p. 1005.

increment tax. The Defense Tax of July 20, 1937 is a typical Nazi tax measure.<sup>51</sup> Every German living in the Reich who was born after December 31, 1912 and who had not been called up for military service became liable for payment of this tax until he reached the age of 45. In the first two years<sup>52</sup> of his tax liability, the levy amounted to 50 percent of his income tax, but it had to be equivalent to at least 4 percent of his wage income, or to 5 percent of other income; in later years, the tax rate was to be only 6 percent of his income tax (with a minimum of .5 percent of his wage income and .6 percent of other income). In 1938 this tax yielded only 17 million reichsmarks.<sup>53</sup>

On March 20, 1939, the increment income tax was introduced under the New Finance Plan,<sup>54</sup> in order to compensate in part for the loss of tax revenue resulting from the issuance of tax credit certificates under the Plan. All persons, including corporations and wage and salary earners, paying income tax were liable to the increment income tax. These taxpayers were to pay to the Reich 15 percent of the excess of their income in the taxable year over the income in the preceding year, i.e., the excess income in 1938 over the income in 1937 was subject to the increment tax payable in 1939. Taxes which did not exceed 12 reichsmarks annually (increment income 80 reichsmarks) were not collected. The tax could not be deducted from income or business gross receipts in the assessment of income, corporation, and business gross receipts taxes. Certain exemptions were allowed. Income increments up to 1,200 reichsmarks were exempt from levy. Furthermore, taxpayers whose income in the taxable year did not exceed 7,200 reichsmarks and whose incomes in the year preceding the taxable year did not exceed 6,000 reichsmarks were exempt from the tax.<sup>55</sup> In addition to these gen-

<sup>51</sup> *Ibid.* (1937) I, p. 821.

<sup>52</sup> The term of military service was two years.

<sup>53</sup> Another typical Nazi tax measure was tax discrimination against the Jews. In addition to greater stringency in the flight-tax which hit Jews almost exclusively (revenue for 1932: 9 million reichsmarks; for 1938: 342.6 million reichsmarks), the Nazis used other taxes to make the Jews a special source of government income. In the assessment of income, property, and citizen taxes, all exemptions and family considerations were removed for the Jews. The special assessment of Jewish property on November 12, 1938 is another example. (See below, p. 77.)

<sup>54</sup> *Ibid.* (1939) I, pp. 561 and 829. For further details, see pp. 52-55.

<sup>55</sup> *Reichssteuerblatt* (1939) pp. 493, 617, 736.

eral exemptions and exemptions for children, there were other intricate special provisions for determining income increment.<sup>56</sup>

The income increment tax for 1939 was to be paid in three equal instalments. On August 21, 1940, however, a decree of the Treasury announced that the tax would apply to the assessment for the calendar year 1939 only, and would not be imposed thereafter.<sup>57</sup> A financial magazine stated<sup>58</sup> that various reasons led to discontinuing the income increment tax. Since rationing of consumers' goods effectively regulated private consumption, the increment income tax was no longer needed to absorb consumer purchasing power. Similarly, it was no longer needed to absorb excess profits, since profits during

<sup>56</sup> For families with several children the basic exemption of 1,200 reichsmarks was increased by 900 reichsmarks for the third and each succeeding child. A married man with four children, therefore, was exempt from the increment income tax if his income in the taxable year did not exceed 9,000 reichsmarks (6,000 plus 1,200 plus  $2 \times 900$  reichsmarks). The exemption of 1,200 reichsmarks and the additional exemption for children were applied without regard to the size of the income increment. Of the variety of deductions permissible in arriving at taxable income increment, the following were the most important. (1) Income derived from agriculture and forestry was exempt from tax. Furthermore, any decline in income from these sources was deductible from the total income increment of those filing returns for income from other sources. (2) Income increment could be reduced by an amount equal to extraordinary income attributable to the taxable year. Extraordinary income was defined as income derived from work extending over several years, or income from the sale of a business, etc. (3) Special income from inheritances, gifts, and other increases in wealth which occurred in the taxable year, dowries, lotteries, etc., were not counted as part of income increment. Special income, however, was exempt only to the extent that this income did not exceed income from other sources in the year preceding the taxable year. (4) Amounts spent in the taxable year for necessary enlargements of capital equipment were deductible from the income increment. The net amount deductible was equal to the total amount of such expenditures minus regular depreciation for income tax purposes. "Necessary enlargement" meant an enlargement resulting in an increase of production in the plant; it did not include replacements and repairs. This deduction was not permitted if the entrepreneur was receiving some direct or indirect subsidy. (5) The increase in income automatically accruing to a wage and salary earner because of seniority, promotion, or an increase in his family was not counted as income increment. (6) The additional depreciation allowances permitted to holders of tax certificates issued under the New Finance Plan were also deductible from income increment. (7) The income tax law permitted the deduction in any one year of the loss suffered in the two preceding years. When this provision gave rise to an income increment which was higher than would otherwise have been the case, the amount of income before deducting losses of preceding years was taken as the base. (8) Certain extraordinary circumstances, such as liquidation of a household, change in fiscal year, or shift in tax liability status, which might have unreasonably increased the income increment were to be dealt with flexibly.

<sup>57</sup> *Reichsgesetzblatt* (1940) I, p. 1130.

<sup>58</sup> *Der Deutsche Volkswirt* (August 30, 1940) p. 1745.

the war were being kept within certain limits through price control and cost accounting regulation. Moreover, the assessment of the tax had caused great administrative difficulties.

#### (d) Changes in State and Local Taxes

The Nazi government attempted to reserve for the Reich the greatest possible portion of any increase in tax revenue that occurred after 1932. State and local authorities were consequently kept as short of funds as possible. They were not permitted to increase taxes too much lest they encroach upon the tax revenue of the Reich. For that purpose, the Reich took over the administration of some state and local taxes. At the same time state and local authorities were prevented from keeping taxes too low lest great discrepancies in the tax burden develop among individual states and among individual local governments. The Decree Concerning Municipal Reserves of May 5, 1936 dealt with this problem. Every local government was required to establish an operating reserve, an equalization reserve, and, under certain circumstances, additional special reserves. So long as the minimum requirements for these reserves were not reached, taxes, fees, and contributions levied by the local governments could not be reduced. Reserves so formed were considerable and were usually invested in Reich securities.

The Reich consistently increased its own income at the expense of the state and local authorities after 1934 by reducing transfers to them from Reich taxes. The revenue of the state and local authorities from Reich transfers increased very little after 1934, in spite of the fact that the total receipts of the Reich rose sharply in these years. Consequently, the percentage of total Reich receipts transferred to state and local authorities declined rapidly during the period, from 31 percent in 1934-35 to 16 in 1938-39. Since the outbreak of war the share of the state and local authorities in total tax receipts has further declined.

#### *Tax Measures for Specific Economic or Military Purposes*

In a controlled economy, direct intervention by the government often makes it less important to use taxation as an instrument of economic control, such as regulation of consumption, distribution of income, capital formation, and avoidance of inflation. Insofar as the Nazis used tax policy to promote specific economic purposes, they

did so either to stimulate employment, or to encourage the growth of population, or to facilitate rearmament. We shall not deal here with the tax measures taken to stimulate employment, which were adopted in the first period of Nazi rule and which constituted on the whole more liberal depreciation provisions in cases of expenditure for capital equipment.

The purposes behind the tax measures to stimulate population growth and to facilitate rearmament were on the whole the same; they were prompted by the Nazi *Weltanschauung* on military affairs that they were meant to serve, the latter in the "short run," and the former in the "long run." Both sets of provisions were fairly simple. To facilitate marriages and to encourage large families, taxes were reduced (October 1934) for those who were prolific.<sup>59</sup> Tax reduction for dependents was augmented under the wage, assessed income, and inheritance taxes, and introduced for the property and citizen taxes. When an increase in the assessed income and wage taxes was considered necessary in 1939, it was applied only to single persons and childless couples. The reduction in the unemployment aid tax in March 1934 — the only basic tax reduction of the Nazi government — consisted almost exclusively of various exemptions for married couples with children.<sup>60</sup>

Most of the tax measures which had a direct bearing upon rearmament had some connection with the problem of self-sufficiency. Some of the many steps which the Nazi government took to increase Germany's independence in agricultural commodities were changes in the tax system:<sup>61</sup> the agricultural land tax was reduced in September 1933 for one year by about 25 percent; the turnover tax on agricultural commodities was reduced from 2 to 1 percent; in April 1933 a tax of 50 reichsmarks per 100 kilograms was levied on margarine, artificial fats, vegetable fats, and hardened blubber.<sup>62</sup> This tax was designed to reduce the consumption of margarine and enable the government to improve the price paid for butter to the

<sup>59</sup> *Reichsgesetzblatt* (1934) I, pp. 1005, 1052, 1056.

<sup>60</sup> *Ibid.* (1934) I, p. 235. The reduction, effective April 1934, brought about (a) total exemption of all married persons with three or more children, (b) total exemption of all married persons with one or two children and monthly incomes of less than 500 reichsmarks, (c) total exemption of single persons and married couples without children with monthly incomes under 100 reichsmarks, and (d) certain reductions in the general rate schedule.

<sup>61</sup> *Ibid.* (1933) I, p. 651.

<sup>62</sup> *Ibid.* (1933) I, p. 206.

farmers at the expense of the imported raw materials necessary for the production of margarine.

Tax laws affecting firms producing substitute (*Ersatz*) commodities were enacted as early as July 1933 when the Treasury was empowered to exempt from Reich and state income, corporation, turnover, property, business, and land taxes, partly or wholly, those producers who were engaged (1) in the development of new methods of production or (2) in the production of new types of commodities, provided the exemption seemed advisable for the good of the whole German economy.<sup>63</sup> The tax exemption was to apply only insofar as turnover, income, and the like resulted from operations pertaining to the development of new methods, etc.; furthermore, this exemption was not to lead to direct competition with enterprises established in Germany before the enactment of this tax law. An official source indicates that these provisions were applied quite frequently during the second Four Year Plan.<sup>64</sup> Import duties were also used to encourage synthetic production of various products. In the case of rubber, an important duty of 125 reichsmarks per 100 kilograms was imposed upon raw rubber in May 1937. With a fall in the world price of rubber the duty was increased to 170 reichsmarks in March 1938. The proceeds were used to expand investments for synthetic rubber (Buna) production.<sup>65</sup>

Other tax measures assumed to help rearmament were concerned with the problems of transportation and storage. The great significance of motorized equipment for modern warfare was recognized by the Nazis at a very early date. Production of automobiles was consequently encouraged. From April 1933 on, all new motor vehicles were exempted from the motor vehicle tax.<sup>66</sup> But in later years this exemption was offset by several new automobile duties which did not affect production directly. Import duties and compensatory taxes on petroleum, gasoline, and grease were raised in 1936, in part to aid in financing the construction of Reich super-highways. Also in 1936, the transportation tax, which the railroad passenger and freight traffic had borne for years, was extended to include the traffic on buses and trucks.<sup>67</sup>

<sup>63</sup> *Ibid.* (1933) I, p. 491.

<sup>64</sup> *Der Vierjahrsplan* (1939) p. 7.

<sup>65</sup> *Wochenbericht des Instituts für Konjunkturforschung* (August 4, 1937) p. 174.

<sup>66</sup> *Reichsgesetzblatt* (1933) I, p. 192.

<sup>67</sup> *Ibid.* (1936) I, p. 531.

Several measures were introduced to encourage the accumulation of stocks of certain goods. For instance, the technique in applying the turnover tax to wholesale trade was changed. The old law concerning the turnover tax provided for complete tax exemption for the wholesale trade when it resold goods without storing them, and full liability for the tax (2 percent) when it stored the goods. In the turnover tax law of October 16, 1934 the distinction was abolished and a rate of .5 percent was imposed on the entire wholesale trade. In addition, complete tax exemption was granted to wholesale trade in cotton, wool, metals, oil, coal and other raw materials important to rearmament.

### *Tax Policy Since the Outbreak of War*

No fundamental changes were necessary in tax legislation and tax policy when the "defense" economy became a war economy in September 1939. The distribution of the various types of taxes between Reich, state and local authorities remained unchanged. War tax policy was at first based on the War Economy Decree of September 4, 1939.<sup>68</sup> It was clearly the purpose of this Decree to curtail as much as possible the expenditure of private and public funds wherever it was not essential for the war effort. In order to curtail private consumption, existing taxes were drastically increased; in order to curtail the use of public funds, the states, the local authorities, and other public institutions were compelled to transmit to the Reich an even larger part of their revenue from taxes.

The War Economy Decree introduced three different tax measures. A surtax was imposed upon the income tax. This surtax affected all incomes over 2,400 reichsmarks, including wage earners and excepting corporations.<sup>69</sup> The surtax amounted to 50 percent of the regular income tax, but could not exceed 15 percent of the taxpayer's income. The regular income tax and war surtax combined could not exceed 65 percent of the taxpayer's income.<sup>70</sup> Wage and salary earners were exempt from the war surtax if their income did

<sup>68</sup> *Ibid.* (1939) I, p. 1609.

<sup>69</sup> *Ibid.* (1939) p. 1613.

<sup>70</sup> Another change in the income tax law affected the assessment of capital gains. The inclusion of capital gains as taxable income was suspended in 1939, shortly before the outbreak of war (*ibid.*, 1939, I, p. 1316). Effective January 1, 1941, capital gains were again to be taxable income under the income tax law (*Bank-Archiv*, January 1, 1941, p. 26).

not exceed 234 reichsmarks monthly, or 54 weekly, or 9 daily. The surtax was paid at the source by wage and salary earners. A surtax alcoholic beverages and tobacco goods;<sup>71</sup> and states, local authorities, and diverse public and quasi-public institutions had to pay "war contributions" of a varied nature to the Federal Treasury.<sup>72</sup> These war contributions were very considerable.<sup>73</sup>

No further changes were made in tax legislation until about two years after the outbreak of war. In August 1941, a dividend tax was introduced. However, since its primary purpose was not to raise revenue, but to prohibit "excess dividends," we have dealt with it in discussing developments in the capital market.<sup>74</sup> At about the same time, a war surtax of 25 percent was decreed on the existing corporation tax<sup>75</sup> which had not been touched by the surtax on incomes ordered in the original War Economy Decree; the surtaxes on tobacco goods and some alcoholic beverages were increased from the original 20 to 50 percent of their retail prices and some stamp duties were repealed.<sup>76</sup> New developments in tax legislation came after about another year, in the spring and summer of 1942.<sup>77</sup> The surtax on the corporation tax was raised from 25 to 35 percent for corporate incomes above one-half million reichsmarks. Some provisions of the income tax law, for example concerning working wives, were liberalized; the tax on landlord's inflation gains was abolished by com-

<sup>71</sup> *Reichsgesetzblatt* (1939) I, pp. 1615, 1762, 2267; see also *Halbjahresberichte zur Wirtschaftslage* (1939-40) No. 2, p. 133.

<sup>72</sup> These contributions were ordered as follows: (a) by the states, and additional 15 percent of their share in the yield from income, corporation, and turnover taxes; (b) by the local communities, 2.5 percent of the yield from the tax on agricultural enterprises, 5 percent of the yield from the tax on real estate, 7.5 percent of the yield from the business receipts tax, and 10 percent of the yield from the citizen's tax; (c) by other public and quasi-public institutions entitled to levy taxes, fees, etc., a contribution fixed by the Treasury to the Reich. Included among these organizations were the Organization of Industry, the Reich Food Estate, the Labor Front, the Social Insurance Institutions, etc.

<sup>73</sup> In 1940-41, the "war contribution" by the local authorities amounted to 1.25 billion reichsmarks (Bank for International Settlements, *Eleventh Annual Report*, 1941, p. 112).

<sup>74</sup> See pp. 20-23.

<sup>75</sup> *Economist* (1941) p. 654. The 25 percent surtax was supposed to produce 1 billion reichsmarks annually (Bank for International Settlements, *Twelfth Annual Report*, 1942, p. 119).

<sup>76</sup> *Economist* (1941) p. 654.

<sup>77</sup> H. W. Singer, "The German War Economy," VI and VII. *Economic Journal* (1942) pp. 202 and 397-98.

pounding it into a capital debt of the landlords;<sup>78</sup> the citizens tax was merged with the regular income tax; and the slaughter tax was rescinded.

### BORROWING

In a speech on February 8, 1942, the Secretary of the German Treasury is said to have declared that "the financial and credit policy of the Reich had never been reduced to a dogma, but it seized the most favorable moment to find money necessary for the prosecution of the war, wherever it was to be found."<sup>79</sup> These remarks may well be taken as a description of the ever-opportunistic borrowing policy of the Nazi government before the outbreak of war, as well as after. With an eye on conditions in the money and capital markets, the government borrowed money "wherever it was to be found." Its specific methods at any given time were conditioned by the existing credit situation, but this did not mean that its attitude toward the credit situation was passive, that the government was resigned to accepting conditions in the money and capital markets as given and beyond control. Far from it. The financial sector, like the rest of the economy, was harnessed to the needs of the military program, and the government did not hesitate to take steps to prepare the money and capital markets for playing an ever-larger role in providing necessary funds.

During the entire period from 1933 on, the question of the aggregate amount to be borrowed at a given time was scarcely affected by any of the traditional financial considerations usually associated with expressions like "sound finance" or "the financial strength of the Reich." Instead, the decision as to the volume of new borrowing was dependent upon the size of the "public works" and armament program, which, in turn, was planned in accordance with the ultimate military objectives of the government and the amount of physical resources available. In the beginning, when the Nazis were probably not yet fully aware of how much of a burden the money and credit system could safely carry, and when they were still seriously concerned about public opinion at home and abroad, it is quite possible that financial considerations did, to some extent, impede actual expansion. Their success in this area, after they completely freed

<sup>78</sup> For discussion, see pp. 58-59.

<sup>79</sup> *New York Times* (February 9, 1942).

themselves of all the usual financial inhibitions, indicates that the money and credit system of a complex modern economy can be subjected to much greater strains than has hitherto been generally believed. The break with the traditional attitude on government borrowing found expression in a law passed in February 1935<sup>80</sup> which authorized the Treasury "to borrow funds in amounts to be determined by the Reich Chancellor upon the suggestion of the Treasury." Whereas the constitution of the Weimar Republic had authorized government borrowing on the whole for investment purposes only and had sought to restrict it by making it dependent upon special legislation, the Treasury was now given a completely free hand, the only limitation being the formality of requiring an authorization from the Reich Chancellor. There were no other restrictions of any kind; special legislation for new loans ceased to be necessary.

While the extent of government borrowing was no longer a matter of great significance and study, the financial authorities devoted much attention to determining the nature and types of new government obligations. They showed great versatility in devising various new short-term borrowing instruments called tax remission certificates, work-creation bills, special bills, special types of Treasury certificates, Treasury delivery bills, tax credit certificates, Army promissory notes, and Credit Office notes. Some were rediscountable at the Reichsbank, some were acceptable only as collateral against lombard credit from the Reichsbank, some were renewable and some enjoyed special tax privileges and even legal-tender qualities. The techniques employed by the Nazis in the six-year period before the outbreak of war varied with changing economic conditions, particularly with changes in the volume of unemployment and in the extent of unused capacity. In the early years, especially the first two, the government relied very largely upon credit expansion through the Reichsbank and commercial banks. Later, it borrowed increasing amounts of the funds accumulated by business organizations, and by institutional and private savers, as it tried to keep down the ever-rising volume of credit expansion. When war was declared, the only significant change in the methods of borrowing was an increasing dependence upon short-term financing.

The money market became very liquid after the Nazis embarked

<sup>80</sup> *Reichsgesetzblatt* (1935) I, p. 198.

upon their rearmament program. After carefully preparing the capital market, the government took advantage of this new liquidity to supplement its short-term borrowing policy by a series of long-term loans. Floated at 4½ percent, the interest rate which the Nazi government had uniformly established in the prewar period for nearly all long-term debts in the economy, these loans cost the government more than the short-term issues. Not until after the outbreak of war did the government further reduce the interest rate on new long-term government bonds.

It is impossible to obtain complete information concerning the extent of borrowing by the Nazi government, or the methods it employed. The discussion that follows is based on whatever material is available. Four different periods are distinguished: (1) The period from the beginning of the Nazi administration until about 1935, during which there was a gradual decline in the large number of unemployed and the mounting government deficit was covered by short-term loans. (2) The period from 1935 until 1938 during which the economy was approaching practically full employment. In this period the Nazis were able to consolidate some of their previously contracted short-term debts into long-term loans, but at the same time continued to increase their short-term indebtedness. (3) The period from 1938 until the outbreak of war, a period of full employment during which the Nazis deemed it necessary to employ special financial methods (in addition to continuing the short-term borrowing and consolidation loans) lest inflationary tendencies become uncontrollable. (4) The war period proper characterized by the continual placement of huge long- and short-term loans and by the exploitation of the resources of the occupied foreign territories.

#### *The Period of Short-Term Financing, 1933-35*

When the Nazis seized control, they found the capital market too demoralized to finance government deficits through the sale of long-term bonds. Since the market recovered very slowly,<sup>81</sup> they covered the entire budgetary deficit of the first two years through short-term borrowing. Their first short-term instruments, the tax remission certificates (*Steuergutscheine*) and the work-creation bills (*Arbeitsbeschaffungswechsel*), had been contrived by their predecessors.

The tax remission certificates were originally introduced in Sep-

<sup>81</sup> *Vierteljahrshefte zur Konjunkturforschung*, Vol. 9 (1934) A, pp. 11-12.

tember 1932 as part of the von Papen Plan for combating the depression.<sup>82</sup> To stimulate private enterprise by lowering the taxes which were considered to inhibit production, and at the same time to avoid sacrificing the revenue they yielded, the government collected taxes as usual but issued tax remission certificates, which could be converted into cash immediately or held as credit for future tax payments. Those who paid the business tax, the turnover tax and the land-and-building tax received such certificates in an amount equal in value to 40 percent of their payments between October 1, 1932 and September 30, 1933, and those who paid the transportation tax received certificates equal to 100 percent of their payments during this period.

Earning 4 percent annually, these tax remission certificates could be used for payment of all Federal taxes and customs (except corporation and income taxes) due in the fiscal years 1934-35 to 1938-39, in an amount each year equal to 20 percent of the total value of certificates issued. In other words, for each 1,000 reichsmarks certificate, 208 reichsmarks would be accepted for tax payments after one year, 216 reichsmarks after two years, 224 after three years, etc. Taxpayers who preferred cash immediately could sell their certificates on the Stock Exchange and use the proceeds as they saw fit.

It was expected that the certificates would have a high market value because in addition to their annual return of 4 percent they were to be treated as first-class paper, they could be used as collateral against loans, and the Reichsbank was permitted to rediscount them up to 75 percent of their market value. To insure a strong demand for them, a consortium of banks was organized to purchase the certificates from the holders with notes provided for the purpose by the Reichsbank. An insignificant part of the total amount of certificates issued was used in connection with another phase of the Papen Plan, namely the payment of a subsidy (of 400 reichsmarks a year per man) to employers who could prove that they had employed more men from October 1, 1932, to September 30, 1933 than in the period from June to August 1932. This subsidy scheme was discarded as of March 31, 1933.<sup>83</sup>

The work-creation bills were the most important of the short-term bills employed by the Nazis. They were used first to finance

<sup>82</sup> *Reichsgesetzblatt* (1932) I, p. 425.

<sup>83</sup> *Wirtschaft und Statistik* (1938), pp. 789-90.

public works and later armaments, and were specially designed to circumvent limitations imposed by conditions existing at the beginning of 1933.<sup>84</sup> At the time, the commercial banks were in no position to make the necessary short-term credit available. Their portfolios were full of frozen credits. They were extremely non-liquid and heavily in debt to the Reichsbank. The Reichsbank, on the other hand, restricted at that time by its own statutes, could neither discount bills on behalf of the government, nor pursue an active open-market policy. Since, however, it could discount commercial bills, the work-creation bill was devised. This bill, after passing through certain prescribed channels, became acceptable as a "commercial bill" eligible for discount at the Reichsbank.

Work-creation bills performed their short-term financing function in the following manner.<sup>85</sup> States, provinces, counties, municipalities, and other authorized public and quasi-public agencies ordered houses, roads, etc., from private contractors, who drew bills of exchange against them for the amount of the contract. After being endorsed by the ordering agency, these bills were presented for acceptance to special publicly-owned financial institutions. Once accepted by any of these financial institutions, they were treated as commercial bills and could be discounted at the Reichsbank. Just as ordinary commercial bills are supposedly "secured" by commodities in the process of production or sale, so these new bills were secured by the obligation of the Reich to redeem them within a specified time period which varied from project to project but never exceeded five years.<sup>86</sup> The Reich emphasized this obligation by depositing special guarantees, tax remission certificates, or work-creation debentures with the Reichsbank.

By 1935 the expenditures on work creation openly became part of the armament program. Before March of that year most of the

<sup>84</sup> The work-creation bills were originally introduced to finance von Schleicher's Urgency Program for the expenditure of 500 million reichsmarks on roads, housing, public utilities, and inland water transportation.

<sup>85</sup> The mechanism is well described in Adolf Friedrichs, "Die Finanzierung der Arbeitsbeschaffung," *Bank-Archiv* (January 1, 1934) pp. 134 ff.

<sup>86</sup> The bills were drawn for three months, but being renewable nineteen times, they took on the character of medium-term paper. When the bills matured, the Reich—not the municipalities or other agencies—paid them. But the ultimate liability rested with the ordering agencies which owned the public works financed through the work-creation bills. It was a long-term liability to the Reich for the amounts originally financed by the short-term mechanism of the work-creation bills.

rearming had taken place under a veil of official secrecy, but after Germany reintroduced military conscription in 1935, military preparations were carried out openly and with great zeal. The public works program gradually gave way to the construction of airfields, barracks, and munitions factories, which were financed by short-term paper very similar to work-creation bills, but called special bills (*Sonderwechsel*). They were six-month bills which could be issued by any government department for payment of contractors, were discountable by the Reichsbank at its official rate of 4 percent, and were renewable. No limit was placed upon the number of renewals that could be made.

The guarantee posted by the Reich in the case of work-creation bills and its direct liability in the case of special bills meant that all these bills were an addition to the short-term public debt. They constituted government liabilities to either the Reichsbank or the commercial banks, but the Reich's budgetary and accounting procedure failed to include them as part of the declared public debt. The German government was obviously reluctant to make its short-term debt known, probably because it did not want to risk disturbing public confidence, and also because a large part of the debt served to finance rearmament, the extent of which the government was anxious to keep secret. The published figures of the Reich did not consider the short-term debt an obligation of the government until the year it fell due.<sup>87</sup> Since only 20 percent of the work-creation bills fell due each year, the figures published during the first few years of the Nazi administration failed to record a large percentage of the work-creation bills as well as all of the special bills.

The work-creation and special bills proved, in addition to interest-bearing Treasury certificates and non-interest-bearing Treasury bills, an effective means of utilizing the short-term money market to finance the public works and rearmament program until such a time as recourse to long-term loans became feasible. But even after long-term capital was more readily available, the Nazis continued to use these short-term bills. The League of Nations suggests that until 1938 the issue of special bills was the "principal means of financing

<sup>87</sup> The *Wochenbericht des Instituts für Konjunkturforschung* (November 13, 1935, pp. 183-84) maintains that there is no such thing as a "secret" Reich indebtedness, since it is justifiable not to record a public debt which is legally not yet an obligation of the government.

Germany's armament and other capital expenditures,"<sup>88</sup> and the Reichs-Kredit-Gesellschaft calls the period from 1935 to April 1938 "the phase of the 'special' bills."<sup>89</sup> Official figures on the amount of special bills issued were never made public. Private estimates vary widely.<sup>90</sup>

### *The Period of "Debt Consolidation," 1935-38*

The financing of the government deficit through short-term bills was viewed by the Nazi government as a temporary expedient made necessary by the condition of the German capital market when they seized control.<sup>91</sup> As a preliminary step in the movement to revive the capital market, appropriate official Nazi sources repeatedly declared that any idea of a forced conversion into longer-term issues or lower interest rates had been unequivocally rejected.<sup>92</sup>

Then followed a series of measures designed to increase general confidence, reduce the long-term interest rate, and prepare the capital market for the eventual absorption of large government issues. The most important of these were: the Law concerning the conversion of short-term internal municipal debts of September 21, 1933,<sup>93</sup> which provided for the consolidation into long-term municipal issues and the reduction of interest rates on municipal debts, previously a "critical source of uncertainty";<sup>94</sup> the change in the Reichsbank Law of October 1933 which empowered the Reichsbank to support the

<sup>88</sup> League of Nations, *Money and Banking 1938-39*, Vol. II, p. 81.

<sup>89</sup> Reichs-Kredit-Gesellschaft, *op. cit.*, p. 42.

<sup>90</sup> The League of Nations (*op. cit.*) records some of the estimates. No estimate of the total amount of special bills in circulation at the end of March 1938 is reliable, however, for the available banking statistics do not permit the separation of special bills from genuine commercial bills, work-creation bills, and other short-term paper.

<sup>91</sup> The *Wochenbericht des Instituts für Konjunkturforschung* (English edition, July 1, 1936, p. 53) emphasized that "the government has always made it clear that the intermediate short-term financing of employment creation was to be considered as the premature use of future capital, and that at given times the short-term debts were to be funded, so that the principles of sound finance policy would not be neglected."

<sup>92</sup> Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1933-34*, p. 50. As early as June 1934, *The (London) Banker* assured its readers that "the attitude of the new (Nazi) regime towards the banks proved to be less hostile in practice than had been expected. . . . The revolutionary proposals for the nationalization of banks and the abolition or compulsory reduction of interest rates have not so far been made operative and there seems to be no likelihood of their adoption" (p. 185).

<sup>93</sup> *Reichsgesetzblatt* (1933) I, p. 647.

<sup>94</sup> Reichs-Kredit-Gesellschaft, *op. cit.*, p. 50.

bond market by engaging in open-market operations; and the Law concerning the credit system of December 4, 1934, one of the purposes of which was to obligate and to encourage the commercial banks to hold larger portfolios of government bonds by making these eligible for use as legally required reserves. It was hoped that the resulting increase in demand would favorably affect the market for government securities. After these preparations, the government proceeded to convert all pre-Nazi issues into securities bearing lower interest rates, and to consolidate its own short-term debts. Conversion laws enacted on January 24, 1935 and February 27, 1935<sup>95</sup> placed all public and quasi-public bonds on a 4½ percent basis instead of the previous 6 percent. These conversions not only functioned as part of a general plan to reduce interest rates and thus ease the interest burden in the economy, but they also played a part in preparing the capital market for the consolidation of the outstanding short-term indebtedness of the Reich.

The Nazi government was now prepared to consolidate its own short-term indebtedness, a task made easier by the virtual ban, discussed earlier, that was placed on all private loans. The first long-term loan for the purpose of consolidating the short-term work-creation bills was floated in January 1935, concurrently with the public conversion operation of 1935. The loan consisted of 4½ percent bonds which were taken up by the Union of Savings Banks and the Clearing Bank Association (*Deutsche Girozentrale*) at 98¼ and were to be repaid within 28 years.<sup>96</sup> The second great consolidation action was taken in September 1935 under the same conditions as the previous issue. Besides the savings and clearing banks which again took over part of the loan, the private insurance institutions had pledged themselves to invest part of their newly acquired funds in the Reich consolidation issue. And for the first time, a portion of the loan was directly offered to the public in the open market. The loan was oversubscribed.<sup>97</sup>

These two "consolidation" loans set the pattern for many further issues which followed each other in quick succession. But for only a

<sup>95</sup> *Reichsgesetzblatt* (1935) I, pp. 45, 286.

<sup>96</sup> *Wochenbericht des Instituts für Konjunkturforschung* (January 30, 1935) pp. 16-17.

<sup>97</sup> *Reichs-Kredit-Gesellschaft, Germany's Economic Situation at the Turn of 1935-36*, p. 52. See also Great Britain, Department of Overseas Trade, *Economic Conditions in Germany to March 1936*, pp. 28-29.

limited period were some of the issues offered for public subscription. The government came to rely more and more on institutional savers for the purchase of long-term issues until appeals to the public were completely discarded late in 1938. From a political point of view it probably seemed wise to avoid loan-drives and public discus-

TABLE 1 — REICH LOAN ISSUES, 1935 TO AUGUST 1939  
(in millions of reichsmarks)

<i>Issues</i>	<i>Total Amount Issued</i>	<i>Amount Publicly Offered</i>	<i>Years to Maturity at Issue Date</i>
<i>Loans 4½ Percent</i>			
1935	846.8	..	27
1935 Series II	1078.6	..	27
1937	637.3	..	27
1938	1783.9	..	27
1939	1624.9	..	27
<i>Redeemable Treasury Bonds 4½ Percent</i>			
1935	500.0	500.0	10
1936 Series I	98.0	..	10
1936 Series II	700.0	500.0	12
1936 Series III	600.0	500.0	12
1937 Series I	700.0	600.0	12
1937 Series II	800.0	700.0	15
1937 Series III	850.0	750.0	15
1938 Series I	1400.0	950.0	18
1938 Series II	1966.0	1200.0	20
1938 Series III	1850.0	1200.0	20
1938 Series IV	1600.0	1600.0	20
<i>Debt Certificate Loans</i>			
1935 4 percent	264.1	..	..
1936 4½ percent	56.7	..	..
<i>Reich Railway Bonds</i>			
1936 4½ percent	500.0	500.0	8
<b>TOTAL</b>	<b>17,856.3</b>	<b>8,900.0</b>	

Sources: Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1938-39*, p. 92, and *Wirtschaft und Statistik* (1939) pp. 244, 448, 729.

sion and to channel private savings into the large capital-accumulating institutions. The government obviously considered this pattern very successful and, as we shall see later,<sup>98</sup> employed it exclusively during the years of war.

Table 1 shows that during the 1935-38 period there was a progressive increase in the rate of what the Nazis called consolidation;

<sup>98</sup> See pp. 55-56.

not only did the loans increase in size from issue to issue, but they were floated at closer intervals. At the same time maturities tended to lengthen. The increasing liquidity of the money and capital markets during the period of consolidation<sup>99</sup> must be understood as part of the general picture of expanding economic activity. Among the many factors contributing to this liquidity were the large expenditures of the government and the employment of large amounts of discountable short-term bills, which, taken together, increased the cash resources of business and the commercial banks. At the same time there were large additions to savings deposits, insurance premiums, and the sums collected by the social insurance fund, all attributable to the great increase in employment. Nazi statistics place the total of long- and medium-term 4½ percent Reich loans and Treasury bonds floated from the beginning of 1935 until the outbreak of war at about 17.9 billion reichsmarks, of which about 8.9 billion reichsmarks were offered for public subscription and the rest placed directly with insurance institutions, savings banks, other financial houses, and (since the fall of 1938) with local and municipal reserve funds.<sup>100</sup>

Since the total bill holdings of the German banks, including the Reichsbank, continued to increase during the period of consolidation, it is apparent that the medium- and long-term consolidation issues "consolidated" the public debt of Germany only in the sense that, without them, the issuance of short-term bills would have increased even more than it actually did. Although the available statistics do not separate the special bills and work-creation bills from the private commercial bills, the League of Nations indicates that "it is generally believed that, as a result of the growing liquidity of private business, the latter (private commercial bills) have greatly decreased in importance since 1931 and have come to constitute only a minor portion of the total." On this basis it is suggested that "the consolidation loans have been, on balance, an additional source for

<sup>99</sup> For a detailed and instructive discussion of the effects of the various consolidation issues upon money and capital markets, see Willi Schmidt and Victor Wrede, "Konsolidierung und Kreditmechanismus," *Vierteljahrsschrift zur Wirtschaftsforschung* (1938) pp. 405 ff.

<sup>100</sup> Reichs-Kredit-Gesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 44.

covering current expenditure rather than a means of actually consolidating — and therefore reducing — the floating debt.”<sup>101</sup>

### *The Period of Maximum Mobilization, 1938-39*

The preceding section indicated that in spite of large consolidation issues from 1935 to 1938 the Nazi government had to meet a considerable part of its deficit by means of short-term financing through the banking system, largely in the form of special bills. In the early part of 1938, however, the approach of the economy to full capacity, and the resulting fear of inflation in many quarters, led to a change in policy.<sup>102</sup> Before the annual meeting of the Reichsbank on March 11, 1938, its President outlined the new course to be followed. The financing of armaments by special bills was to be discontinued as of the beginning of the new fiscal year, April 1, 1938; thereafter public funds were to be obtained from current revenues (taxes and customs) and from long-term loans on the capital market. To the Reichsbank was assigned the task of “working off” the volume of special bills not already in its possession.

As soon as the bills in the hands of commercial banks and private individuals fell due (it will be recalled that they were six-month bills), the Reichsbank redeemed them out of funds provided by the issue of “block bills” (*Blockwechsel*) and “sola bills” (*Solawechsel*). Block bills were certificates issued by the Reichsbank in exchange for large blocks of maturing special bills. Running for the most part between three and twelve months, renewable, carrying an interest in June 1939 ranging from 3 percent for three-month bills to 3 9/16 percent for twelve-month bills, they were held largely by the commercial banks. There is no information concerning the amount of block bills issued. The solas were three-month bills issued since 1935 by the Gold Discount Bank, a subsidiary of the Reichsbank, in order to provide a profitable temporary investment for the excess funds of the commercial banks and at the same time to obtain financial means for the purchase of work-creation bills which often accumulated at the Reichsbank. Since both the sola bills and block bills were highly liquid banking assets eligible for rediscount, their substitution for special bills actually meant only a formal withdrawal of the latter.<sup>103</sup>

<sup>101</sup> League of Nations, *Money and Banking 1937-38*, Vol. I, pp. 56-57.

<sup>102</sup> League of Nations, *Money and Banking 1938-39*, Vol. I, p. 56.

<sup>103</sup> *Ibid.*, p. 58; Reichs-Kredit-Gesellschaft, *op. cit.*, p. 48.

To facilitate the transition from short-term financing to a dependence upon current revenue and long-term capital, a new type of short-term bill, the "Treasury delivery bill" (*Lieferungsschatzanweisung*), was introduced.<sup>104</sup> This proved to be just another variation of the short-term "prefinancing" which the Nazis had been using all along, its most significant differences being those designed to limit the possible credit expansion in the economy. Unlike special bills, these Treasury delivery bills could be issued only by the Treasury<sup>105</sup> and only for six months, after which they were to be funded out of the proceeds of long-term loans. Nor were they eligible for rediscount, as were the special bills; they could, however, be used as collateral for Reichsbank advances up to 75 percent of their value. But since the interest rate charged by the central bank for advances was 5 percent as compared with the 4 percent discount rate on bills, whenever banks were in need of funds they would prefer to hold delivery bills and send to the Reichsbank other bills which were discountable.<sup>106</sup> But the Treasury delivery bills were similar to the special bills in that they were given in payment (usually as part of the payment) for public works and armaments. Contractors had to accept delivery bills in payment at 3 percent less than their face value, but had to pay  $3\frac{1}{2}$  percent for discounting them at the banks.<sup>107</sup>

Originally conceived as a purely temporary measure, the Treasury delivery bills were to be issued only in amounts that could be fully repaid at maturity, evidently by recourse to the capital market.

<sup>104</sup> League of Nations, *op. cit.*, Vol. II, pp. 81 ff.

<sup>105</sup> W. G. J. Knop in *The Banker* (London, May 1938, p. 123) asserts that Dr. Schacht himself was responsible for the new instruments of finance "with the intention of creating an instrument of central financial control and in the hope that he might be entrusted with its direction. For one of the great weaknesses of the 'special bill' system is its complete decentralization. 'Special bills' are issued independently by the various government departments and all they have to do is to notify the Reichsbank of the amount issued." Under the delivery bill system government departments desiring to spend over and above their allotted budgets had to apply to the Treasury for funds. As matters turned out, however, Schacht was not entrusted with the direction of the new centralized policy.

<sup>106</sup> Since Treasury delivery bills could not be rediscounted, every investment in them tended to decrease the liquid assets of the investor. German banks keep only a small amount of cash and rely extensively on rediscounting; their credit policy is affected more by the size of rediscountable assets than by the size of the cash reserves. League of Nations, *op. cit.*, Vol. I, p. 56.

<sup>107</sup> Reichs-Kredit-Gesellschaft, *op. cit.*, p. 90.

But the annexation of Austria, and the intensification of military preparations during and after the Czechoslovakian crisis in the fall of 1938 upset all previous calculations as to revenue requirements.<sup>108</sup> The need for additional revenue, coming as it did at a time when the capital market was showing signs of tightening,<sup>109</sup> forced the Reich to issue a great deal more delivery bills than it had anticipated. Mention has been made before of the large increase in the volume of 4½ percent Reich long-term loans floated during the period from April 1938 to April 1939. In addition, there were reports that government departments—the Army in particular—were paying for goods in “acknowledgment vouchers” that merely took official cognizance of the debt. Making their first appearance in November 1938, these vouchers were estimated five months later at about 1 billion reichsmarks.<sup>110</sup>

The circumstances which compelled the Reich to issue more delivery bills than it had intended eventually led it to discontinue their issuance. Designed as a stop-gap during what was expected to be a transition phase in German finance, the delivery bills were not equipped for the situation that confronted them. The era of complete dependence upon current revenue and long-term capital, which they were supposed to usher in, never developed. Instead the German economy found itself face to face with extraordinary revenue requirements and dwindling sources. Any considerably greater dependence upon taxation was hardly possible during peacetime. The capital market for “governments” had evidently deterio-

<sup>108</sup> See *Reichs-Kredit-Gesellschaft, op. cit.*, p. 85 where explicit reference is made in this connection to “the incorporation of Eastmark,” the “reconstruction of the Sudetenland,” the “increased armament production within the former Reich itself,” and the “fortifications on the Western frontier.”

<sup>109</sup> See *Wochenbericht des Instituts für Konjunkturforschung* (English edition, August 11, 1939). It is reported that the last of the 4½ percent bond issues floated in 1938 was undersubscribed, and that the banks had difficulty placing their quotas. There was, moreover, a decline in the quotations for 4½ percent public and quasi-public bonds; the index was 100.13 in April 1938, fell to 99.00 in January 1939 and to 98.95 in August 1939; and might have fallen further were it not for the open-market operations begun by the Reichsbank in January 1939. (*Ibid.*, German edition, June 21, 1939 and September 15, 1939.)

<sup>110</sup> *New York Times* (March 5, 1939). According to the correspondent, about 500 million reichsmarks had been used by the recipients as collateral for loans from banks. The Reich gave assurances that the vouchers would be honored in time. In effect therefore the Reich was insisting upon an interest-free loan from the firms supplying merchandise.

rated.<sup>111</sup> The economy was too close to the limits of its productive capacity to risk a wholesale expansion of credit through the banking system. The condition of the German economy and of the financial system, at the time of the introduction of the New Finance Plan, is described by the Reichs-Kredit-Gesellschaft as follows:<sup>112</sup> "There can be no question that the more-than-average exertions which have been imposed upon all available economic resources during the last twelve months are now genuinely close to their limits. The strains which have made their appearance in the field of prices, incomes, and consumption clearly point to this conclusion."

As a result the New Finance Plan was introduced on March 20, 1939, to become effective as of May 1 of that year.<sup>113</sup> Designed to tap new sources of revenue, it was very detailed and complicated.<sup>114</sup> The treatment here is restricted to the more important aspects of the borrowing program. The 4½ percent long-term Reich Treasury bonds were no longer to be offered for subscription in the open market. Instead long-term loans were to be placed directly with institutions such as insurance companies and savings banks, in amounts adjusted to the volume of long-term capital accumulated by them. The delivery bills, all of which fell due some time between May and October of 1939, were to be withdrawn as they matured. In their stead was to be issued an increased volume of non-interest-bearing (discount) Treasury bonds, and in addition two types of tax credit certificates resembling in name only those issued in September 1932. It is the tax certificates which constitute the backbone of the New Finance Plan. They are the short- and medium-term in-

<sup>111</sup> It is interesting to notice the euphemisms used by Nazi publications to keep the outlook bright regardless of the circumstances. The inaccessibility of the capital market at this time is described as follows: "The absorbing capacity of the bond market was subject to fluctuations which became of greater importance as the circulation of Reich loans increased. The State could not allow its consolidation requirements to be exposed to the accidents of such fluctuations. . . . It also did not seem practical to shut off from the capital market private business and other branches of public administration. . . . This made necessary a fundamental change in the method of financing. The basic idea of the new finance plan is to open the capital market more and more to private industry." Supplement to the *Wochenbericht des Instituts für Konjunkturforschung* (English edition, April 20, 1939) p. 2.

<sup>112</sup> Reichs-Kredit-Gesellschaft, *op. cit.*, p. 43.

<sup>113</sup> Reichsgesetzblatt (1939) I, p. 561.

<sup>114</sup> See, for instance, Reichs-Kredit-Gesellschaft, *op. cit.*, pp. 44-46, and F. Terhalle, "Der Neue Finanzplan," *Jahrbücher für Nationalökonomie und Statistik*, Vol. 149 (1939) pp. 682 ff.

struments that continued the tradition of "prefinancing" begun in 1933, and provided a method of borrowing that was completely independent of conditions in the money and capital markets.

Type I certificates were non-interest-bearing and could be used at face value for the payment of all taxes and customs, seven months after issuance. Type II, also non-interest-bearing, had to be held for thirty-seven months after issuance before they were acceptable in payment of taxes and customs, but were then accepted at a premium of 12 percent, and could be used as collateral for bank loans. Provinces, municipalities, the Reich, the Nazi Party, the Reich Post Office, the Reich Railway, the Hermann Goering Works, the Automobile Road Organization, the Public Utilities, and other public law corporations all paid for 40 percent of their orders (where the payment was over 500 reichsmarks) in tax credit certificates, 20 percent in Type I, and 20 percent in Type II. All these agencies purchased their tax certificates from the Reich for cash, thus putting at the disposal of the government any liquid assets they might have accumulated. Ultimately the loan was made by the suppliers of goods, which was in keeping with one of the major purposes of the certificates, "to effect a maximum immobilization of liquid industrial funds,"<sup>115</sup> especially those funds which had previously been used in ways considered undesirable. It seems that in spite of the numerous direct controls over investment, labor, and raw materials, many firms had been able to "self-finance" projects which the Nazis would have preferred to see postponed.<sup>116</sup> The idea now was to induce entrepreneurs to tie up in tax certificates the funds that might otherwise be "misused."

To make the certificates a particularly attractive investment, and to encourage entrepreneurs to hold them as long as possible, they were assigned special characteristics. Type I certificates entitled their holders to tax relief through an additional depreciation allowance in their income or corporation taxes. If entrepreneurs kept them for at least ten months, they could assign to depreciation for semi-durable capital equipment as much as 20 percent of these certificates, thus reducing the income or corporation tax base correspondingly. The rate was increased by 5 percent for every additional year,

<sup>115</sup> Reichs-Kredit-Gesellschaft, *op. cit.*, p. 45.

<sup>116</sup> Supplement to the *Wochenbericht des Instituts für Konjunkturforschung* (English edition, August 11, 1939) p. 2.

up to a maximum of 35 percent.<sup>117</sup> Both types were recognized as legal tender for payments between enterprises in industry, handicraft, and commerce. These enterprises were compelled to accept certificates from each other for 40 percent of any amount due for goods delivered or services performed, thus making them a means of payment within industry. They were not, however, permitted to pass over into the field of incomes and consumption or to agriculture.<sup>118</sup> Both types of certificates were marketable; they were bought and sold in over-the-counter trading and there were official quotations for them.<sup>119</sup>

It was perfectly apparent that use of tax certificates meant an increase in the means of payment, but the possibility of inflation that had troubled the Nazis early in 1938 as they approached the limits of their productive capacity was no longer a source of concern. They felt that the credit expansion represented by the certificates would be neutralized by the expansion of production in Austria and the Sudetenland,<sup>120</sup> and, to some extent, by the elimination of a large part of the previous self-financing expenditures.<sup>121</sup> They did, however, take the precaution of specifying that the tax credit certificates could not be discounted at the Reichsbank.<sup>122</sup> At the end of 1939, there were 4,672 million reichsmarks of certificates outstanding.<sup>123</sup>

<sup>117</sup> The special depreciation allowance privileges granted to the holders of Type I certificates were worth more than the current market interest return. The Berlin correspondent of the *Statist* (London, April 1, 1939, p. 401) estimates that this privilege was "tantamount to the payment of from 5 to 10 percent for the first year, the interest to depend on the rate of income tax to which the manufacturer is liable." A later issue of the *Statist* (November 4, 1939, p. 484) revises the estimate to between 10 and 17 percent per annum.

<sup>118</sup> Reichs-Kredit-Gesellschaft, *op. cit.*, p. 45.

<sup>119</sup> Supplement to the *Wochenbericht des Instituts für Konjunkturforschung* (English edition, August 11, 1939) p. 1. As a result of the fall in the market value of Type II certificates, they became highly attractive investments, at times yielding over 6 percent. In order to hold them, firms were ready to increase their indebtedness to the banks, or, more often, to reduce their liquid bank balances. See also League of Nations. *Money and Banking 1939-40*, Vol. I, p. 10.

<sup>120</sup> Supplement to the *Wochenbericht des Instituts für Konjunkturforschung* (English edition, April 20, 1939) p. 4.

<sup>121</sup> *Ibid.*, (English edition, August 11, 1939) p. 4.

<sup>122</sup> Reference has been made to the fact that Type II certificates were eligible as collateral for Reichsbank loans. It seems likely that their use as collateral was permitted because there was no assurance that tax certificates, distributed as they were, would automatically find their way only to enterprises liquid enough to hold them until the date of maturity.

<sup>123</sup> League of Nations, *op. cit.*, Vol. I, pp. 10, 53.

The outbreak of war and the inability to maintain the market value of the tax certificates without extensive purchases by the Reichsbank forced the Reich to discontinue them by November 1, 1939 and to do most of its borrowing thereafter through interest-bearing Treasury bills. On April 1, 1940, tax credit certificates were deprived of their quality of being a means of payment.<sup>124</sup>

### *The War Period*<sup>125</sup>

"Silent financing" is the term frequently employed in Nazi literature to describe the method of borrowing used after the outbreak of war. The procedure was fairly simple and was carried through with the help of the various credit and banking institutions which were completely dominated by the government. During the first three and a half years of war<sup>126</sup> the general public was not even asked to subscribe to "war loans." Since production and investment had been directly controlled for years and consumers' goods became rigidly rationed when war broke out, the government evidently felt secure in the knowledge that the ways in which individual and corporate incomes could be spent were narrowly circumscribed. Moreover, an increasingly large part of these incomes was channeled into the Treasury through the tax system which was amended for that purpose at the outbreak of war and again later. Whatever individual or corporate income was not taxed away and could not be used for consumption or approved investment would, it was felt, find its way necessarily to the various credit and savings institutions, where it could be reached easily by the government. The Reich Treasury, in fact, tapped these sources regularly. It borrowed also directly from the Reichsbank, although actually in much smaller amounts than from the other credit institutions.

Wartime borrowing has been carried through on a short- and long-term basis. The short-term instruments have been Treasury notes and rediscountable Treasury bills which were sold currently to the commercial banks, allegedly to absorb only the savings accumulated there. Some of the Treasury bills and longer-term certi-

<sup>124</sup> Bank for International Settlements, *Tenth Annual Report* (1940) p. 113.

<sup>125</sup> We have used for our analysis, besides the various publications of the League of Nations and other literature specifically quoted, the *Tenth, Eleventh, and Twelfth Annual Report* of the Bank for International Settlements (1940, 1941, and 1942) and *Die Wirtschaftskurve*, Vol. 20 (1941) pp. 153-54.

<sup>126</sup> Our information covers Nazi war finance until about the beginning of 1943.

cates (discussed below) have been "purchased" by the central banks and credit institutions in the "Protectorate" of Bohemia and Moravia (Czechoslovakia) and other neighboring countries. Short-term loans have also been granted to the Reich by the various Reich Credit Offices. These are the special banks of issue which, created for the occupied territories, are "independent" institutions, but managed by a Reichsbank official.<sup>127</sup> At the end of March 1942, the total amount of such loans was estimated at 5.3 billion reichsmarks.

Long-term issues have consisted of marketable, interest-bearing Treasury certificates and so-called "Li-loans" which the Treasury has sold to savings banks, private and public insurance corporations, cooperatives, etc. None of the long-term issues were offered to the public, no syndicates were organized to place them. So firm was the hold of the Treasury on the credit institutions that these customary procedures were superfluous. It has been estimated that at the most only 20 percent, and probably less, of all the funds borrowed by the Reich between August 1939 and December 1941 were supplied directly by the public.<sup>128</sup> The earlier issues of Treasury certificates (March and May 1940) matured after five and ten years respectively; later issues (since September 1940) after twenty-one years. Those issued before 1941 paid 4 percent interest; later issues, 3½ percent. Li-loans were issued in bonds of twenty to thirty years' maturity, and, as in the case of the Treasury certificates, paid lower rates of interest as time passed. The original rate was 4½ percent, but declined to 4 and later to 3½ percent.

This brief analysis of the increase in Germany's public debt since August 1939 makes it obvious that the methods of borrowing during the war period were basically no different from those used for the preparation of the war: the government relied largely on credit institutions other than commercial banks for the absorption of long-term loans, and for short-term funds on the commercial banks, which were helped, if necessary, by the rediscounting facilities of the Reichsbank. The government did not wish to revive the unpleasant memories of the war loans floated during World War I by appealing to the public for funds.

<sup>127</sup> The two chief functions of the Reich Credit Offices were to provide currency for the payment of troops and requisitioned goods, and to facilitate the change-over of occupied territories from local to German currency.

<sup>128</sup> Bank for International Settlements, *Twelfth Annual Report (1942)* pp. 121-22.

The system of controlled production and consumption made it increasingly unlikely that any significant part of the national income would be spent for purposes which might interfere with the war economy. It was not until the third year of war that the government felt the need to urge an increase in the total money savings in the economy. To add to the forces already at work to induce savings, the decree of October 30, 1941 concerning the "guidance of purchasing power" was issued, and in it the government provided incentives for increased savings by wage and salary earners and entrepreneurs.<sup>129</sup>

Wage and salary earners were invited to participate in a scheme of "iron savings." Deducted weekly or monthly from regular wage and salary payments and transferred to local credit institutions, these iron savings were originally not to exceed 26 reichsmarks a month for an individual. Later the maximum was raised to 39 reichsmarks. In addition to paying current interest equivalent to that paid on savings deposits of at least one year's duration, iron savings were made attractive by an automatic reduction in the saver's tax liabilities, but they could not be withdrawn until after the war, and then only upon one year's notice. The portion of an individual's income thus saved enjoyed complete exemption from the income tax, wage tax, and social insurance contributions. The exemption from the income tax meant, according to estimates, that about 15-20 percent (in some cases much more) of an individual's credit on his iron savings account represented a gift to him by the government,<sup>130</sup> since the reduction in his taxes came to approximately that. From the point of view of the government, the tax reduction meant that the war was being financed to a larger extent through borrowing and to a smaller extent through taxation. The results of iron savings were said to be rather disappointing during the first year of its operation,<sup>131</sup> and when the scheme was extended in November 1942, the monthly revenue amounted to only 70 million reichsmarks.

For the entrepreneurs there was a similar scheme. They could make deposits with the Treasury that were blocked for the period of the war, would bear interest only after the end of the war, and

<sup>129</sup> We are describing the provisions of the decree as amended on December 10, 1942 (*Reichsgesetzblatt*, 1942, I, p. 691).

<sup>130</sup> Bank for International Settlements, *op. cit.*, p. 122.

<sup>131</sup> *Economist*, Vol. 143 (1942) p. 608.

could be withdrawn upon application after the war for making belated replacements and repairs and for replenishing the depleted inventories in raw materials or semi-finished goods. The deposits on blocked accounts could amount to 50 percent of a firm's depreciation allowance in 1940 or, in the case of commodities, to 20 percent of its holdings of raw materials and semi-finished goods as assessed in its tax return for 1938 (or for the average of 1937-39). The depositors were to be granted certain tax privileges after the war.

No information is available as to whether the operation of the scheme was considered successful. Obviously not satisfied with this voluntary scheme, the government in the spring of 1942 made it compulsory for entrepreneurs to deposit part of their profits with the Treasury "for the duration."<sup>132</sup> All entrepreneurs whose income amounted to at least 30,000 reichsmarks in 1941 (around 30,000 firms) were to deposit part of that income with the government if it exceeded their 1938 income (or the 1936-38 average) by at least 50 percent. Individual entrepreneurs had to deposit 25, corporations 30 percent, of the income in excess of 150 percent of their income in the base period. The Treasury was to decide after the war what use to make of the funds thus accumulated. In cases of emergency, entrepreneurs could obtain loans from the fund up to 50 percent of their deposits at an interest rate of 3½ percent. Since the "excess" income continued to be taxed also under the regular income and corporation tax laws (normal rate and surtax) the total curtailment of the "excess" income (tax and deposit) was very high. The maximum was fixed at 90 percent.<sup>133</sup>

One other scheme which the government used in the fall of 1942 for obtaining funds should be mentioned, for it did not follow the usual pattern.<sup>134</sup> It was rather a variation on borrowing methods used in the prewar period, methods of creating private debts for the benefit of the government instead of showing them as increases in the public debt. Thus, instead of the tax on landlord's inflation gains heretofore in effect, landlords were compelled to make a capital payment to the government amounting to ten times the annual tax assessment. This was known as an "equalization payment," and

<sup>132</sup> Decree of March 31, 1942 (*Reichsgesetzblatt*, 1942, I, p. 162).

<sup>133</sup> H. W. Singer, *op. cit.*

<sup>134</sup> *Economist*, Vol. 143 (1942) pp. 306, 486.

was to be completed by the end of 1942. To some extent these payments were expected to come out of funds not being used by the landlords, and hence to mop up idle cash. But for the most part, it was realized that landlords would have to borrow to make the necessary payments; mortgage banks, savings banks, and insurance institutions were authorized to lend funds to the landlords at 4.5 percent interest and 4 percent amortization and to issue mortgage bonds in financing the loans. In this way the Treasury swelled its revenue, supposedly by 8.5 billion reichsmarks, through the simple expedient of increasing the indebtedness of private debtors to credit institutions. Bank borrowing was done, not by the government, but by private individuals who paid the money over to the Treasury, thus providing the government with funds without affecting the public debt.<sup>135</sup> It is interesting to note that a landlord who borrowed the entire equalization amount due would have had to pay in the first year an amount equal to 85 percent of his old tax, and gradually less every year thereafter.

#### REVENUE OF PRIVATE AND QUASI-PUBLIC ORGANIZATIONS AS A SOURCE OF GOVERNMENT FUNDS

Taxation and loans were not the only sources of revenue used by public authorities in Nazi Germany to finance their increasing expenditures.<sup>136</sup> The Nazi government transferred many, partly old and partly newly-created, public tasks to special quasi-public organizations, either to the Nazi Party and its affiliates or to various other allegedly independent organizations that were set up for a specific purpose.

In some cases, the agencies were not completely new, but old ones redesignated for new purposes. Education, for instance, no longer remained the exclusive function of the public school system, but was shifted in part to the Hitler-Youth organization. Public welfare, largely under the jurisdiction of local and district authorities before

<sup>135</sup> Another step to curtail public borrowing was taken when the government ordered that, as of October 1, 1942, advance payments on armament orders that had customarily been made were no longer permissible. It was estimated that such payments had amounted to 3.5 billion reichsmarks which meant that the increase in the public debt in the fall of 1942 was by that amount smaller than it otherwise would have been (*Wirtschaft und Statistik*, Vol. 23, 1943, p. 105).

<sup>136</sup> After the outbreak of war, different types of contributions imposed upon the invaded territories and "occupation costs" became an increasingly important source of revenue to the Reich (see footnote 156).

1933, was partly transferred by the Nazi government to affiliates of the Party, e.g., to the NS-Public Welfare and the Winter Help. Public functions were also performed by other affiliates of the Nazi Party, such as the SA (storm troopers), the SS (special storm troopers), the Labor Front, the Organization of Government Officials (*Deutscher Beamtenbund*), and the Students Organization (*NS-Deutscher Studentenbund*), and by certain "independent" organizations, for instance, the Reich Aerial Defense Association (*Reichs-Luftschutz-Bund*). In addition to the Party and its affiliates, the Nazi government built up quasi-public organizations with specific functions in the economy: it established, for example, the Reich Food Estate (*Reichsnährsland*) for control and regulation of agriculture, the Organization of Industry (*Organisation der gewerblichen Wirtschaft*) for control and regulation of all other industries, and the Supervisory Agencies for control and regulation of foreign, and later also domestic, trade. Finally, the Reich Office for Employment Exchange and Unemployment Insurance must be mentioned as an important source of revenue.

All these organizations derived most of their income from special contributions, collections, fees, etc., but outside of public budgets. They were important as a source of government revenue since they relieved the government of expenditures which it otherwise would have had to carry and since they often collected funds in excess of their own needs. Such surpluses were then channeled directly into the Reich Treasury. In order to obtain as complete a picture as possible of all the funds over which the government had control, an attempt must be made to shed some light on the magnitude of these revenues. Such an attempt is faced with particularly great difficulties. Since public reports concerning these revenues were usually not made, reliable and comprehensive information is lacking in many instances. In cases where data on revenue can be obtained, it is often impossible to find out with any degree of certainty how large a portion of the revenue was diverted to the Reich Treasury. Moreover, it is frequently very difficult to determine which part of the activities of such organizations actually represented functions ordinarily performed by the government itself and which part of their income was used for genuinely non-public purposes and should therefore not be added to the Reich revenue. What makes the problem even more complicated, is the fact that some of the

Party organizations received subsidies from the Reich, the state and local governments. We have pieced together many bits of information but the figures on which Chart 5 is based are necessarily largely derived from estimates.

The revenue of the various organizations was derived either from collections (*Spenden*) or from contributions, assessments and fees. Collections were used for charitable or other specified purposes. In the early days of the regime, the Nazi government acquired complete control over all collections. The legal groundwork for the new system was laid in a series of laws and decrees.<sup>187</sup> The voluntary character of collections was more or less eliminated, as terrorism and other pressures forced all individuals and enterprises to contribute. Contributions or fees usually took the form of membership dues or assessments. Membership fees were paid either to Party organizations, to close affiliates or to other organizations of a quasi-public character.

### *Collections*

The Winter Help Fund proved the most lucrative collection for charitable purposes. Prior to the Nazi regime, relief during winter months was provided as part of general public and private welfare activities. The main burden was then borne by states, local authorities, and private associations. The Nazi government discontinued such services by private and public bodies and in 1933 created in their stead a huge new apparatus, the famous Winter Help. The collections for the new organization were made in cash or in kind and were not really voluntary. Recalcitrant contributors were subjected to all kinds of pressure. Entrepreneurs, for instance, found it impossible to secure government orders when they did not make the contributions to the Winter Help that were expected from them. The greatest part of the cash collections was derived from wages and salaries through deductions at the source and from contributions by enterprises based on turnover or income. Street collections were also large.

Nazi Public Welfare and the Adolf Hitler Collections were the two other most important collections for charity. The Nazi Public Welfare's source of funds consisted mainly of a large collection throughout the Reich and several special solicitations for clothes,

<sup>187</sup> *Reichsgesetzblatt* (1934) I, pp. 235, 531, 1086, 1250; (1935) I, p. 289.

food, vegetables, etc., and monthly dues on the basis of income. The entire personnel of public agencies and most of the employees of private enterprises contributed to them. Contributions by enterprises to the Adolf Hitler Collection amounted to .2 percent of their total payroll above 5,000 reichsmarks, with a minimum contribution of 5 reichsmarks for every main office and branch plant. In most cases the enterprises found it desirable to contribute to these collections in order to secure government orders, or because contributions to the Adolf Hitler Collection exempted enterprises from all other collections except the Winter Help and Nazi Public Welfare. Receipts from these collections were not reported.

### *Contributions and Fees*

Membership fees may be separated into two groups, fees to organizations and bodies not directly connected with the National Socialist Party, and fees to the National Socialist Party itself and to organizations which were either part of, or closely affiliated with, the Party. Among the former, the Reich Food Estate, the Organization of Industry, the Supervisory Agencies, the Ministry of Propaganda, and the Reich Office for Employment Exchange and Unemployment Insurance should be mentioned. The largest contribution to the Reich Treasury came through the Reich Office just mentioned. As employment increased and wages and salaries rose, the receipts of the Reich Office considerably exceeded the steadily declining benefit payments. Since the large surpluses were now employed by the Reich for other than the original purposes, and since practically the total amounts were used for expenditures which would normally appear in public budgets, the unemployment insurance contributions resembled genuine taxes.

The income of the Reich Food Estate was made up of membership dues, assessed like taxes, and of special administrative fees, which assumed different forms according to the purpose in view. Membership dues were received both from concerns engaged in agricultural production and from concerns trading in, and processing, agricultural commodities. However, the largest part of the Reich Food Estate's revenue was derived from a great variety of special administrative fees, such as levies to cover administrative expenses (*Bewirtschaftungsabgaben*), compensatory charges (*Ausgleichsabgaben*) and import-export fees. We shall mention only one

example to illustrate the techniques used: the cost of administration of the Central Association for Grain has been met since November 1935 through a payment by the mills of one reichsmark per ton of processed grain, which is added to the price of flour.

Like the Reich Food Estate, the Organization of Industry enjoyed income from different sources. All industrial and commercial enterprises (except agriculture) were made liable for membership fees to the "Organization of Industry."<sup>138</sup> Sums were raised from individual enterprises on various bases such as total payroll, number of employees, or turnover. All enterprises were forced to pay an entrance fee which was supposedly extraordinarily high.<sup>139</sup> Moreover, the special assessment to provide funds for the Export Subsidy of June 28, 1935<sup>140</sup> also falls within the scope of the Organization of Industry. There was a great deal of secrecy regarding these subsidies; enterprises were not even permitted to enter in their books the sums received.

A large source of income was the Supervisory Agencies, which levied fees to cover their administrative expenses. Large amounts also were received by them through special levies imposed upon imports in order to adjust the prices of cheaper imported commodities to the prices prevailing in the domestic market. Another example is the fee in connection with the supervision of the banking system.<sup>141</sup> A levy which affected all branches of industry was introduced during the war, the levy for cooperative economic help (*Die Umlage für die Gemeinschaftshilfe der Wirtschaft*).<sup>142</sup> The funds raised by that levy were to be distributed among entrepreneurs whose business had to be closed during the war, but were to be reopened after restoration of peace. All industries, with a few exceptions such as ocean shipping, were liable for contributions under this law. The levy was based on the business gross receipts; it was first imposed for the fiscal year 1940-41. Numerous other fees were imposed upon business.

The Ministry of Propaganda secured most of its funds from dues paid to the Reich Chamber of Culture, from proceeds of the adver-

<sup>138</sup> *Reichsgesetzblatt* (1934) I, p. 1193.

<sup>139</sup> *Der Deutsche Volkswirt* (May 17, 1935) p. 1511.

<sup>140</sup> *Reichsgesetzblatt* (1935) I, p. 812.

<sup>141</sup> *Ibid* (1934) I, p. 1203; (1935) I, p. 203.

<sup>142</sup> *Ibid.* (1940) I, pp. 395, 737.

tising levy, and from radio fees. The Reich Chamber of Culture was composed of the Reich Film Chamber, Music Chamber, Press Chamber, etc. Membership was compulsory for all those active in the professions concerned. All members were required to pay dues which could be requisitioned as public revenue.

The second type of institution which levied fees partly for public purposes was that closely affiliated with the Nazi Party or the Party itself. The Labor Front was the most important organization of this type. Contributions were based on gross income of the members. There is only scanty information about the revenue of the Nazi Party and other Party organizations. The Party received funds from membership dues and from a number of other sources such as fees for initiation, collections and lotteries for national work. The line of demarcation between Party and government income and expenditures is obviously nebulous. It was reported "that since the Party had assumed tasks which previously fell to the State, the surpluses of the Reich played an important part in the Party's income receipts."<sup>143</sup> During the war, the system of Party contributions was centralized. Formerly, the receipts were distributed among the local, regional, and Reich groups, but after hostilities began all receipts were placed in the hands of the Reich Party cashier who planned a single budget.<sup>144</sup> Funds for air defense were raised partly through membership fees paid to the Reich Air Defense Association.<sup>145</sup> In addition to these "voluntary" fees, compulsory contributions for air defense of large industrial enterprises were imposed upon these enterprises by the Air Defense Law of June 26, 1935.<sup>146</sup> The Department of Aviation could determine the size of these contributions.

We have emphasized before the great difficulties that must be faced in making estimates of the probable magnitude of all these Reich revenues. The greatest handicap lies in the lack of information as to how large a part of the activities of the various organizations must be considered functions which are ordinarily performed by governments. There is no doubt that a great deal of their work was of such a character. As examples, we want to mention some of the activities which the organizations had assumed. One of the best

<sup>143</sup> *Der Deutsche Volkswirt* (August 23, 1940) p. 1713.

<sup>144</sup> *Ibid.*

<sup>145</sup> In 1941, the Reich Air Defense Association had 13 million members (*New York Times*, July 7, 1941).

<sup>146</sup> *Reichsgesetzblatt* (1935) I, p. 821; (1937) I, p. 558.

known was the Winter Help whose services were indispensable. Similarly, the Reich Food Estate, the Organization of Industry and the Supervisory Agencies performed important functions in the Nazi planned economy. Most of these functions were purely public services and were so essential to the government that it would have had to finance them through its regular budget if the "private" receipts had not existed. The same was true, of course, of the export subsidies which were so vital to the rearmament of Germany in making the importation of critical raw materials possible, of the levy for cooperative help of businesses affected by the war which otherwise the government would have had to support, of the various activities by the Ministry of Propaganda, and of a great deal of the work of the Labor Front and the Reich Air Defense Association.

The chief importance of the funds collected through all these organizations lies not so much in the fact that large portions may have been directly transferred to the Reich for use in rearmament, but rather in the fact that these contributions represent for the most part new sources of revenue exploited to finance customary or new government tasks. Without these new sources the total government borrowing would necessarily have been higher.

It is impossible to know where the burden of these contributions fell. Enterprises contributed as well as the masses of the population, and in some cases entrepreneurs were not permitted to shift the burden to the public. Among the enterprises themselves there is some indication that the small ones suffered more than the large.