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National Bureau of Economic Research

Volume Title: Nazi War Finance and Banking

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Volume Publisher: NBER

Volume ISBN: 0-87014-335-2

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

Publication Date: April 1944

metadata, citation and similar papers at core.ac.uk

Chapter Author: Otto Nathan

Chapter URL: <http://www.nber.org/chapters/c9480>

Chapter pages in book: (p. 75 - 89)

GERMANY'S EXPENDITURE FOR WAR

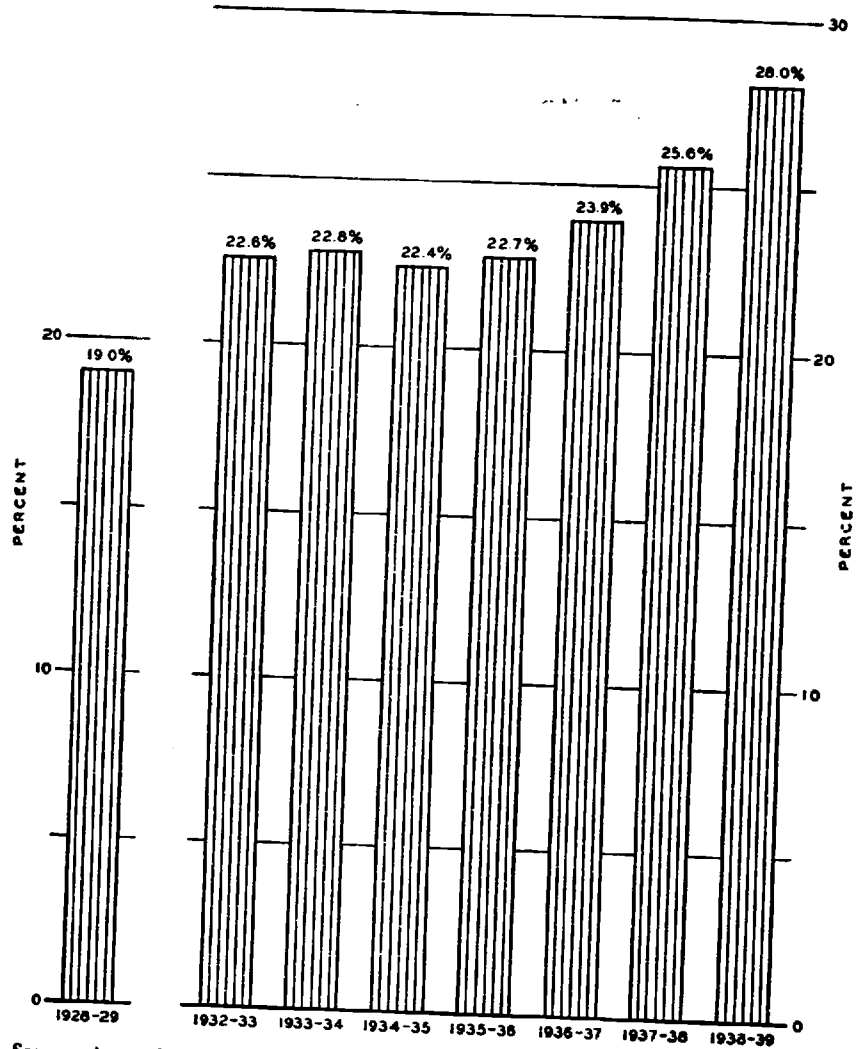
Particularly during the years of war preparation, the Nazi government was very anxious to conceal its expenditure for military purposes. After 1932 neither the exact amount nor the distribution of public expenditures is reliably known since many essential statistics on public finance were suppressed. They can be estimated only on the basis of the total revenue received by the German government from the various sources discussed earlier.¹⁵⁸

An estimate of the revenues of the Nazi government is in itself a difficult task, except for the income through taxation for which figures were regularly published. As for the amounts obtained through loans and miscellaneous sources, we possess only incomplete and inadequate information. The increase in the Reich indebtedness is known only for those amounts which the government officially borrowed and publicly admitted. But it has never denied that it borrowed additional sums at all times in using the manifold, ingenious devices and techniques already discussed. There is no doubt that these amounts were very considerable, but no satisfactory estimate is possible. Since the German government used so many different devices and changed its borrowing techniques so frequently, it succeeded in keeping that part of the public debt unknown and beyond conjecture.

Very great difficulties are also encountered in securing reliable figures about the financial help which the Nazi government was able to obtain from private and quasi-public organizations. Statistics were published only on some of the funds that the government received from these sources. The figures included in our estimate of total government revenue are based on very careful examination.

¹⁵⁸ The estimate of total public revenue (Appendix Table 7) has deliberately been limited to the period 1933-40. Not only are the available data for the later years exceedingly scanty, but the problems of making reasonable estimates multiply particularly because of the existence of occupied territories in which new currencies were introduced and which were forced to "contribute" unknown amounts to the Reich Treasury and to assume other obligations. According to the Bank for International Settlements (*Twelfth Annual Report*, p. 120) the total amount received by the Reich Treasury through all these imposts (including those from the "Protectorate of Bohemia and Moravia") was estimated at 10 billion reichsmarks in the fiscal year 1940-41. The British Ministry of Economic Warfare has estimated that from the beginning of the war until September 30, 1943, Germany has extracted a total amount of almost 45 billion reichsmarks from all the occupied territories (*New York Times*, October 29, 1943).

CHART 4— TOTAL TAX AND CUSTOMS RECEIPTS OF REICH, STATE AND LOCAL GOVERNMENTS (FISCAL YEARS ENDING MARCH 31, 1929-39) AS A PERCENT OF NATIONAL INCOME (CALENDAR YEARS 1928-38)



Source: Appendix Table 4.

We should again emphasize that such estimates must be used with even more than customary care since the Nazis, no doubt deliberately, created a great deal of confusion between public and private functions. While public expenditures were sometimes clearly made through quasi-public or private bodies, private functions, on the other hand, were sometimes taken over by public or quasi-public agencies. We were, therefore, very conservative in our estimates; the amounts which the government obtained were in all probability considerably higher than we assumed. But we do not feel that the actual amount matters so much as long as we are able to give the reader an idea of the magnitude of the Nazi financial effort.

REVENUE FROM TAXATION

Total tax and customs receipts of the Reich, state and local governments more than doubled from 1932-33 to 1938-39 (Appendix Table 4). The increase for the Reich was much larger than for the state and local authorities. This was due not only to relatively greater changes in the tax system of the Reich than in that of the state and local authorities, but also to the redistribution of tax receipts in favor of the Reich. Reich tax and customs receipts amounted to 6.7 billion reichsmarks in 1932-33, 9.7 billion in 1935-36, and 17.7 billion in 1938-39,¹⁵⁹ while state and local tax revenues amounted to 3.5 billion reichsmarks in 1932-33, 3.7 billion in 1935-36, and 4.6 billion in 1938-39.¹⁶⁰ Information on tax receipts by state and local authorities is not available for later years. The Reich alone increased

¹⁵⁹ In addition to these revenues, the Reich received from 1933-34 to 1938-39 over 2 billion reichsmarks from certain taxes the proceeds of which were not recorded in the official reports of tax and customs receipts. These taxes were: (a) Tax on Devaluation Gains (December 23, 1936) which took away 75 percent of the gains accruing to private German debtors from the devaluation of foreign currencies. The total proceeds of this tax were estimated at 1 billion reichsmarks. (b) Assessment on Jewish Property (November 12, 1938). This assessment was to raise 1 billion reichsmarks by successive instalments. Roughly 400 million reichsmarks were raised in two instalments by April 1, 1939. (c) The Special Assessment on Industrial Property (*Aufbringungsumlage*). The 400 million reichsmarks received from this tax from 1933-34 to 1936-37 did not pass through the Reich Treasury, but went into the hands of the Bank for German Industrial Debentures to be used for granting credits to agriculture in the eastern provinces. (d) The Marriage Aid Tax (June 1, 1933) which was levied on wages and assessed income to provide funds to subsidize marriages. Total proceeds from this source, 1933-34 to 1936-37, amounted to 243.2 million reichsmarks. (*Statistik des Deutschen Reichs*, Vol. 528, 1938, II, pp. 11, 41.)

¹⁶⁰ See Appendix Tables 4 and 7.

its revenue from taxes and customs from 17.7 billion reichsmarks in 1938-39 to 23.6 billion in 1939-40,¹⁶¹ to 27.2 billion in 1940-41, 32.5 billion in 1941-42 and 35 billion in 1942-43.¹⁶²

During the first five years of the Nazi regime, Reich, state and local tax and customs receipts maintained a fairly stable percentage of national income, amounting to about 23 percent (Chart 4). This rose very swiftly only in the last fiscal year before the war — as a result of new taxes, higher rates, more efficient tax administration, etc. Because of a swiftly increasing national income, the government was able for a number of years to extract large payments from the people without materially increasing the percentage of the national income absorbed by taxes. Compared, however, with the last “normal” fiscal year before the depression, 1928-29, the increase in the percentage of national income going into taxes was considerable. In that year, a much smaller percentage of national income, about one-fifth, was paid in taxes to the government, while just before the outbreak of war almost three-tenths of the national income was shifted to the Treasury through taxation. The data showing an increase in the total tax burden do not offer any indication regarding possible changes in the distribution of the burden. Only a very detailed examination of the income of specific groups of the population and of their tax payments at various times would throw light on possible modifications in their respective tax load. Such an analysis, however, is not feasible.

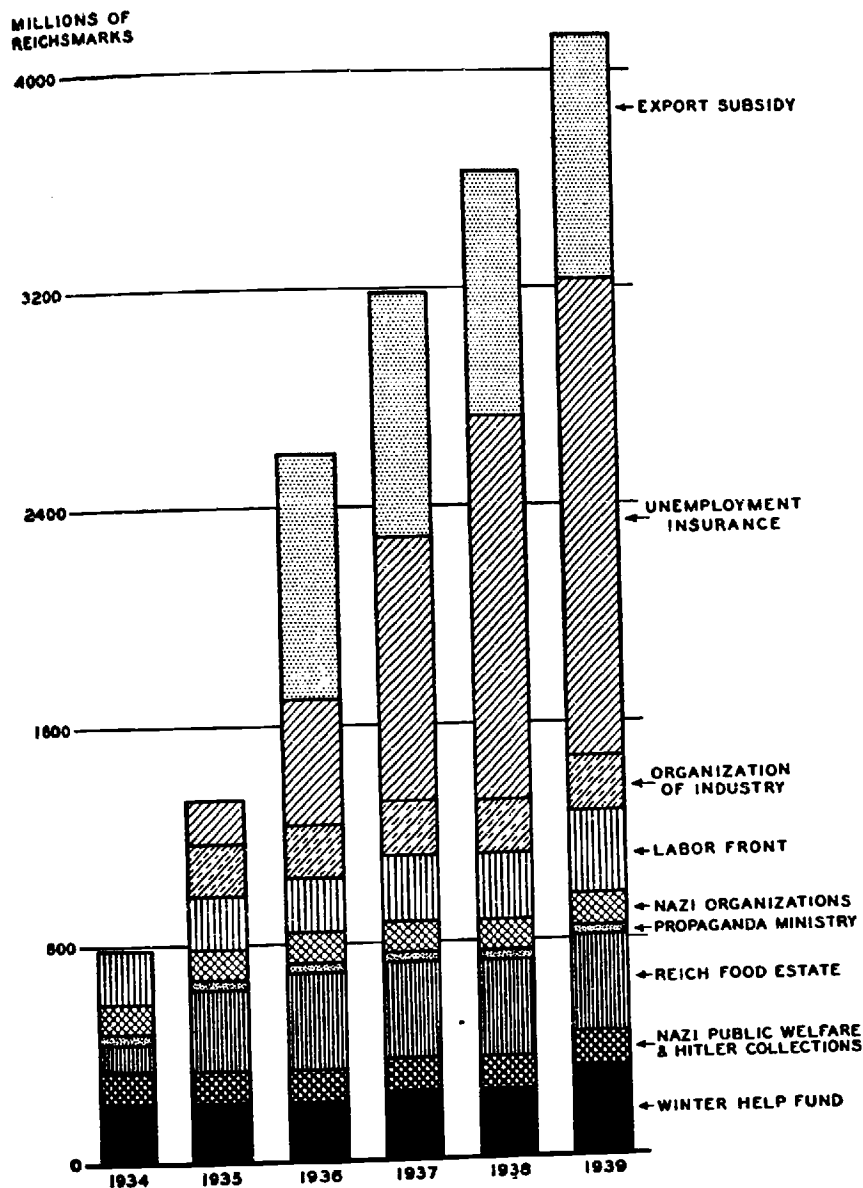
REVENUE THROUGH PRIVATE AND QUASI-PUBLIC ORGANIZATIONS

If the financial help which the Nazi government obtained through private and quasi-public organizations is taken into account, it will be shown that the total burden upon the population was much heavier than the figures on taxation suggest. Chart 5 gives estimates of the most important contributions discussed in greater detail in the previous section. For the period 1933-39 they amounted to roughly 15½ billion reichsmarks. This is equivalent to about 16 percent of total German tax and customs receipts for the period. The total estimate is unquestionably a minimum figure, as individual estimates were minima and as this study does not include all

¹⁶¹ *Wirtschaft und Statistik* (1940) pp. 284, 494.

¹⁶² *Economist*, Vol. 144 (1943) p. 427.

CHART 5 — ESTIMATES OF REICH REVENUE COLLECTED THROUGH PRIVATE AND QUASI-PUBLIC ORGANIZATIONS, FISCAL YEARS ENDING MARCH 31, 1934-39



Source: Appendix Table 5.

contributions. Since the outbreak of war even less information has become available on contributions. There are indications that at the outset some revenues declined temporarily, but steps were no doubt taken to restore them to their former level.¹⁶³ If the few references found are indicative of the general trend, the 1938-39 estimate is probably a minimum figure for each of the subsequent years.

REVENUE FROM BORROWING

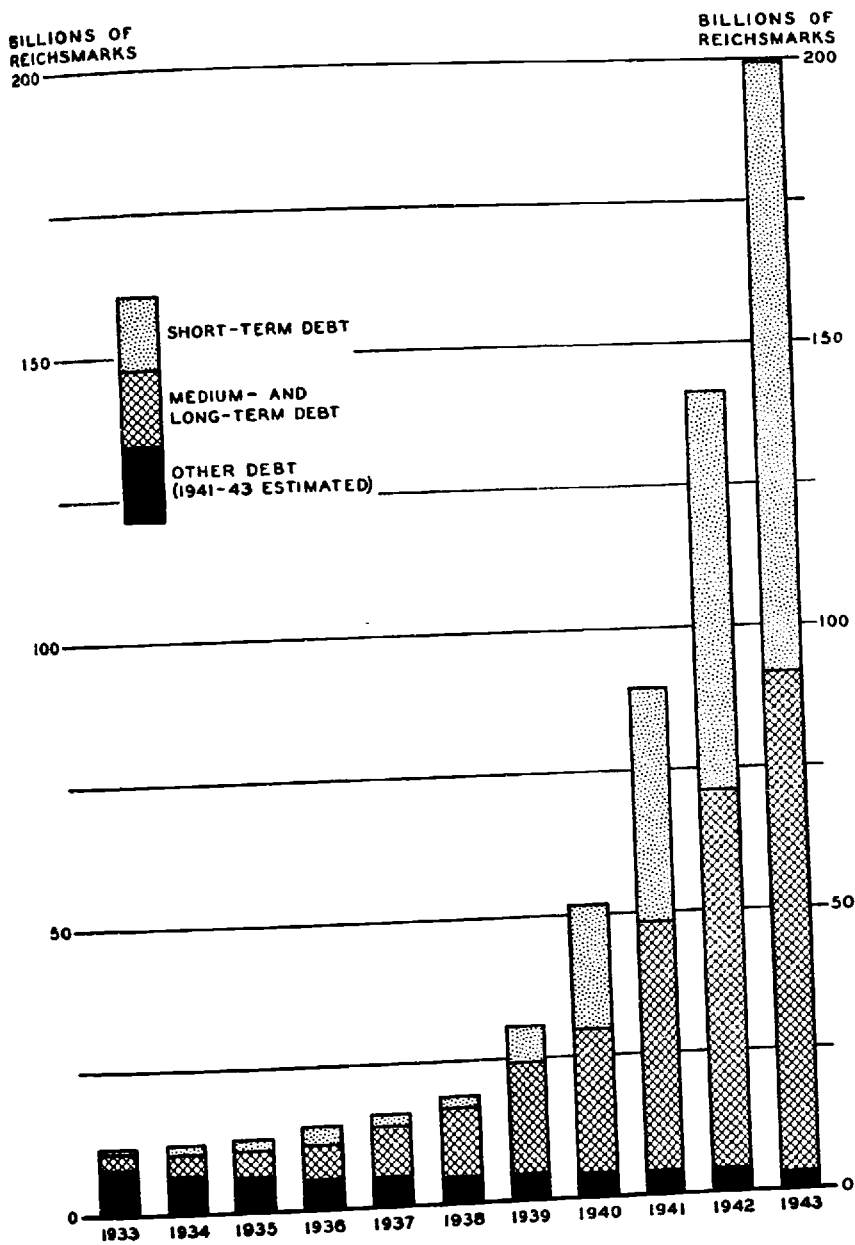
Using the manifold methods of borrowing described in a previous section, the Nazi government built up a heavy debt in the ten years of its administration. It is impossible, however, to give a comprehensive picture of the total debt accumulated by Germany during this period. The only complete figures available are those of the "declared" debt, i.e., the officially admitted debt, which may very well have been distorted by the Nazis. These figures are given in Appendix Table 6 where we have also shown the year-to-year development. The table refers to the Reich only; the picture would not change materially if state and local governments were included. As war preparations gained momentum, the debt of the government grew more and more. (See Chart 6.) This would become far more evident if we could include the "undeclared" debt, those many billions of reichsmarks that the Nazi government borrowed in applying the ingenious techniques and devices discussed before. The Nazis started to borrow clandestinely immediately upon coming to power, and they have continued doing so right up to the present.¹⁶⁴

In the first five years of Nazi rule, the official Reich debt increased slowly by comparison with later developments. In the subsequent two fiscal years (of which the last seven months, however, were war months) the admitted Reich debt more than trebled. It would appear from these figures that the short-term debt did not really start increasing before 1938-39 and that it was not until the year 1942-43 that the short-term floating debt finally exceeded the consolidated long-term debt. Since we must assume that the undeclared debt was mostly of a short-term nature, this picture is highly mis-

¹⁶³ See measures taken in regard to Winter Help (*Der Deutsche Volkswirt*, August 30, 1940, pp. 1740-41) and the National Socialist Party (*ibid.*, pp. 1712-13).

¹⁶⁴ The Treasury made public an estimate of the undeclared debt for the period March 1935 to June 1935; the estimate was 4 billion reichsmarks while the official Reich debt increased by only .3 billion in the same time (*Wochenbericht des Instituts für Konjunkturforschung*, 1935, p. 185).

**CHART 6—OFFICIAL REICH DEBT, FISCAL YEARS ENDING
MARCH 31, 1933-43**



Source: Appendix Table 6.

leading and conceals the fact that Germany, ever since the beginning of her war preparations, has increased her short-term indebtedness considerably. This, of course, became even more pronounced as the war progressed. The creation of new money instruments for occupied territories, forced loans by central banks of those territories, commutation of taxes into so-called capital payments, compulsory and semi-compulsory deposits by entrepreneurs and wage earners with the government, and various other devices increased the financing of the war through short-term instruments much more than the official figures admit.

But even according to the official statistics the increase in the floating debt was in 1942-43 almost twice as large as the rise in long-term loans. By March 1943, the officially admitted debt of the Reich had reached the large amount of 200 billion reichsmarks, or about 16 times as much as a decade before. Although the significance of the data after 1939-40 included in the table is even more limited than Nazi information about borrowing in preceding years, the figures at least indicate the trend of the development and the tremendous increase in the public debt during the war.

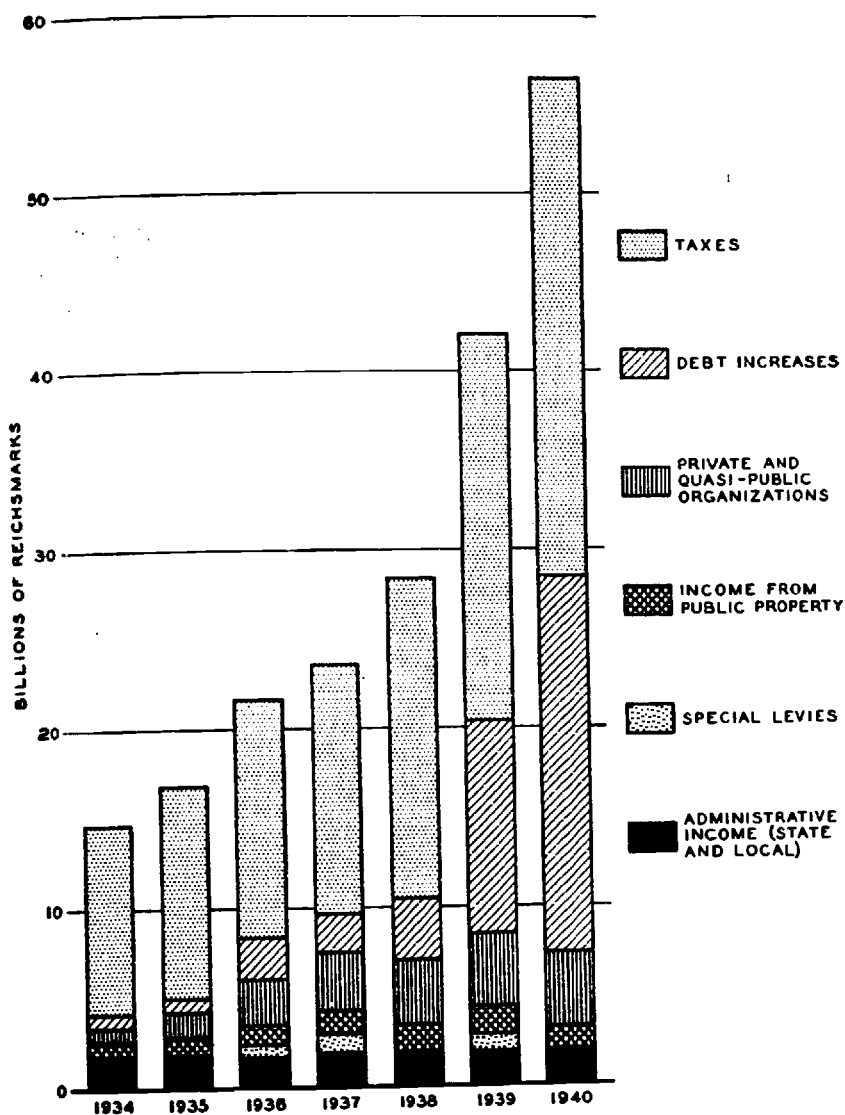
THE COST OF WAR PREPARATIONS

The total amount of revenue in any one fiscal year of the Reich, the states and the local authorities as well as of the private and quasi-public organizations is as close an approximation of total public expenditure as is possible under the circumstances (Chart 7). The amounts actually spent by the Nazi government were considerably higher since, as was explained before, no estimate of the secret debt is included in the figures on total revenue.

The total revenue of the Reich, state and local authorities including official borrowing and contributions increased from 14.7 billion reichsmarks in 1933-34 to 42 billion reichsmarks in 1938-39 (the last prewar year) and to 56.5 billion reichsmarks in 1939-40.¹⁶⁵ Government income in Germany increased from year to year during the Nazi regime; the increase, however, was not very large in the first few years. It jumped by 50 percent in the last fiscal year before

¹⁶⁵ According to rough estimates which evidently cannot take the territorial changes through occupation into account, total government revenue may be assumed to have risen to about 80 billion in 1940-41 and around 100 billion each in 1941-42 and 1942-43.

**ESTIMATED TOTAL REVENUE OF REICH, STATE AND LOCAL CHART 7—
GOVERNMENTS, FISCAL YEARS ENDING MARCH 31, 1934-40**



Source: Appendix Table 7.

the outbreak of war, and by about a third in the next fiscal year.¹⁶⁶ These figures might be misleading if the simultaneous increase in national income were not taken into account. A comparison between total public revenue and national income reveals that as early as in 1933-34, the first year of Hitler's dictatorship, almost a third of national income was diverted to public funds.¹⁶⁷ This percentage increased rather slowly. A big jump occurred again only from 1937-38 to 1938-39 when the percentage of national income channeled through government hands rose from 40 to 53 percent. Since the large amounts borrowed secretly are not included in any of these figures, it is apparent that the share in the national income that was turned over to the government was actually considerably higher than shown in Chart 8.

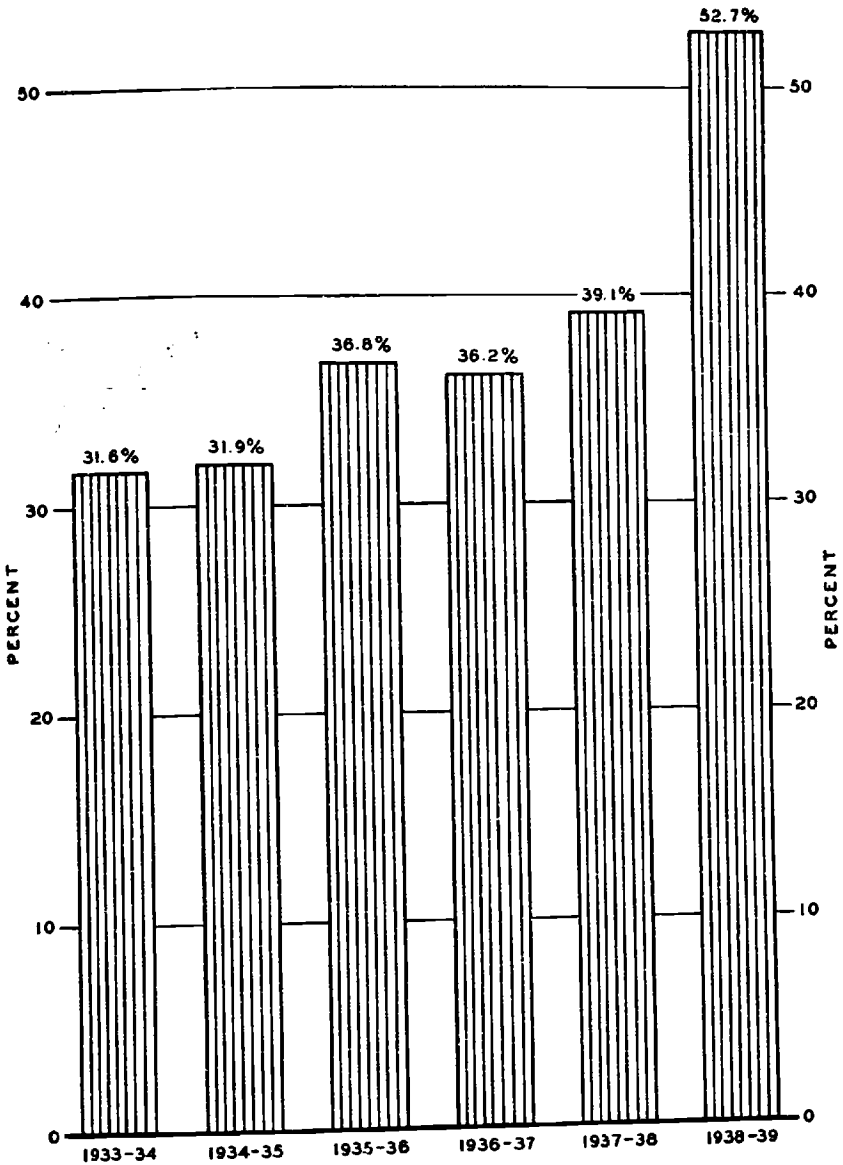
Using revenue estimates as a measure of expenditure, it would appear that total annual expenditure of all public bodies in Germany increased by 185 percent in a period of six years, from the first fiscal year of the Nazi government until the last year before the outbreak of war. In the next fiscal year, seven months of which were war months, a further increase by about a third took place. We have very little information about the distribution of these expenditures for various public services. There was a sharp decline in relief expenditure which explains to some extent the fact that the increase in total expenditure of all public bodies was not greater during the earlier part of the Nazi regime when so much was spent for war preparation.

Any further speculation as to the distribution of Reich expenditure during those years would be futile. We shall attempt, however, to estimate the total expenditure of Germany for the preparation of war. At the beginning of the war, Hitler asserted that Germany had spent 90 billion reichsmarks for armaments. It is difficult to verify this statement. Because of the total character of war preparations, it is impossible to define and delimit "armament expenditure" with any reliability. It is known, for example, that part of the budget provisions for the indoctrination of youth, health and physical cul-

¹⁶⁶ The increase of prices in the years under review was moderate. Adjustment through an index is hence not necessary for the purpose of this study. Adjustment for the increase in territory is not possible because of lack of information as to exactly when revenue figures for Austria and the Sudetenland were first included in official statistics.

¹⁶⁷ See footnote 2.

CHART 8 — ESTIMATED TOTAL PUBLIC REVENUE (FISCAL YEARS ENDING MARCH 31, 1934-39) AS A PERCENT OF NATIONAL INCOME (CALENDAR YEARS, 1933-38)



Source: Appendix Table 8.

ture were employed for military purposes. On the other hand, a good deal of the expenditure in preparing for war was not made by the Federal government itself, but by various other public, quasi-public and private organizations.

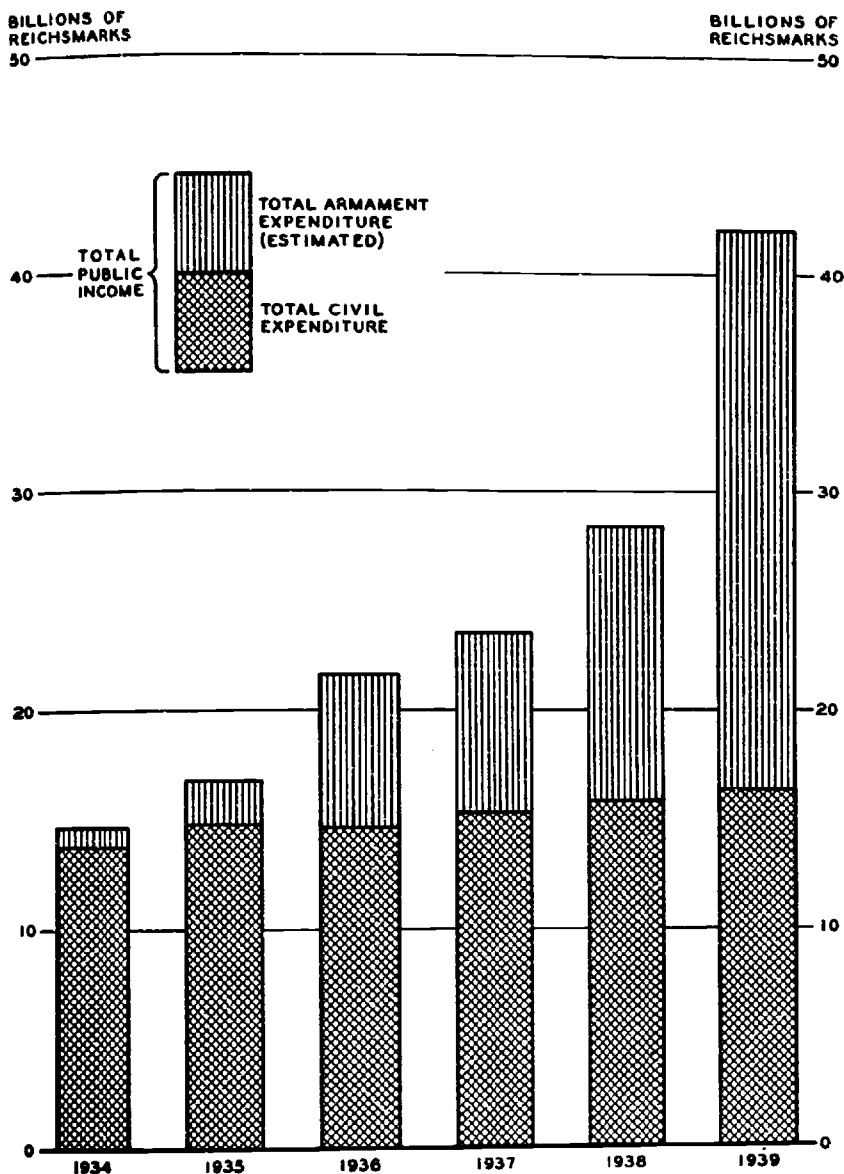
After the outbreak of war, Hitler-Youth hostels were converted into military encampments, "Strength-Through-Joy" boats into hospital ships. When expenditures for these items were made, they were not listed in the public budget as war expenditures even though their ultimate use was for military purposes. There are other such examples. Some of the Aerial Defense preparations, for instance, were made at the expense of private plant and home owners. No one can say with any certainty where armament expenditures began or ended. All we can attempt to do is make an *estimate* of the expenditures made by Reich, state and local governments in promoting armaments. In doing so, all expenditures of the German nation for war preparation that did not run through public budgets will of necessity be neglected. The only method we can adopt requires the use of our previous estimate of total income of the three public governments, in which, however, the amounts unofficially borrowed are not included. From that we deduct the sums which seem clearly to have been spent for civil purposes. It seems reasonable to assume that the remainder was spent for war preparation (Chart 9).

The total expenditures of the Reich in 1933-34 amounted to 5,569.9 million reichsmarks. Deducting 763.7 million reichsmarks for Army and Navy cost and 155.8 million reichsmarks for reparations, we find that civil expenditures in 1933-34 amounted to 4,650.4 million reichsmarks.¹⁶⁸ While similar statistics are available for 1934-35, the development of Reich civil expenditures for all subsequent years can only be estimated.¹⁶⁹ Figures on civil expenditures

¹⁶⁸ *Statistisches Jahrbuch für das Deutsche Reich* (1935) pp. 424-25.

¹⁶⁹ In making an estimate of Reich civil expenditure from 1935-36 on, the following must be considered: (a) After 1934-35 the Reich was relieved of a considerable part of unemployment relief, of pensions to the war widows, war orphans and war disabled, and of so-called domestic world war costs; (b) Additional burdens were incurred because of the increase in population, the rise in prices (salary and wage payments, however, remained unchanged) and the taking over by the Reich of the Justice (1935) and Police (1937) Administrations from the states. To what extent these increases and declines offset each other, it is difficult to say. But we must probably assume an increase of 300 million reichsmarks on account of new Reich Police and Justice Administrations and an annual increase of 500 million reichsmarks in civil expenditures beginning with the 1936-37 fiscal year when unemployment was at a minimum.

CHART 9—ESTIMATED GERMAN MILITARY AND CIVILIAN EXPENDITURES AND TOTAL PUBLIC INCOME, FISCAL YEARS ENDING MARCH 31, 1934-39



Source: Appendix Table 9.

of state and local authorities were published through 1936-37 and can be estimated for the subsequent years.

According to these estimates, Germany appears to have spent about 75 billion reichsmarks for war preparations prior to the outbreak of war. This figure is smaller than the amount given by Hitler. The nature of our estimates, particularly the omission of the secret debt which, according to all accounts, was very considerable, would account for the difference between our estimate and Hitler's figure. Our estimate seems to suggest, however, that Hitler's figure was not basically exaggerated. In fact, if we include the expenditures of private individuals and firms for substitute production, stock accumulation, air defense, etc., the figure may even be too low.



We may now recapitulate Germany's financial developments before and during the war as follows: The first step, taken early after the ascension to power of the Nazis, was to strengthen the foreign exchange control system established during the crisis of 1931 in order to insulate further the financial system against international financial influences. The second step was to modify central banking legislation with the object of establishing complete government domination over the Reichsbank in order to use it for the politico-military objectives of the regime. The third step brought about changes in the system of commercial banking in order to integrate tightly control over its credit activities and to assure the availability of its facilities for financing the preparations for, and the conduct of, war. The fourth major step was the control over investment through the capital market in order to canalize its resources almost exclusively into government obligations.

Germany enjoyed a comprehensive and flexible tax system before the Nazis came to power. Since it yielded increasingly larger revenues automatically with the improvement of business conditions, little change was necessary when the financial needs of the government increased with expanding war preparations. The few changes that were made consisted of moderate increases in existing taxes and of several innovations for special purposes. Tax income was supplemented by utilization of the revenues of various private and quasi-public organizations for public purposes.

To finance the excess of expenditures over all these revenues, the

Nazis resorted, at first, to indirect short-term borrowing. Various devices were employed to obtain funds through the central and commercial banking system without the necessity of admitting the amounts borrowed. But it was not long before the government started to raise funds through the issuance of formal obligations. This was accomplished by selling long-term loans at uniform rates to the public and, to an increasing degree, to savings banks and insurance institutions, and by selling short-term obligations to the commercial banking system and the Reichsbank.

Wartime borrowing has consisted chiefly of short- and long-term issues placed directly with the banks and savings institutions but not with the public, a process called "silent borrowing." For the first three and a half years of the war, the official Reich debt, about half of which is short-term, has risen sixfold. In addition, there exists an unofficial short-term debt the size of which is not known.

During the period of war preparation, total government receipts rose slightly in relation to national income, from three-tenths to two-fifths; the amount rose, however, in the last year before the war to over 50 percent of national income. Total government revenues compared to national income have certainly been even higher than 50 percent during the war period itself, although even approximate estimates are not possible. This is particularly true since Germany has shifted as much of the cost of conquest as possible onto occupied territories; data on these "revenues" are very incomplete. The total cost to the German people of preparing for war ranged from an estimated 75 to 90 billion reichsmarks, but the cost of waging war has, even so far, been several times this amount.