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Institutions under Pressure:
Political Intervention and Central Bank Independence in
Interwar Germany (1928–1937)

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Stanislaus Ruhaltinger BSc (WU) BA

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Assoz. Prof. Kirsten Wandschneider MSc PhD

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Stanislaus Ruhaltinger

Vienna, 10. December 2025

Abstract

This thesis examines how political influence on central banking affected macroeconomic outcomes in interwar Germany. It focuses on the Reichsbank between 1928 and 1937, spanning the late Weimar Republic and the early Nazi regime. Using a newly constructed intervention index that distinguishes between discursive signals, directive interventions, and institutional reforms, the study applies local projection methods to estimate effects on unemployment, industrial production, inflation, and the exchange rate.

The results indicate that before the 1931 banking crisis, when the Reichsbank remained bound by the gold standard, political interventions had little measurable impact. After the 1931 crisis, the erosion of external and institutional constraints that had previously protected the Reichsbank enabled political actors to intervene more directly in monetary governance. Institutional changes after 1933, particularly the restructuring of the Reichsbank's governance and the introduction of politically directed credit instruments, are associated with persistent decreases in unemployment, while multiple forces were at work and the estimates should be interpreted with caution. For industrial production, the results suggest that politically directed credit and the broader shift toward state-led economic planning supported the recovery. The exchange rate became increasingly managed, while inflation remained contained by price controls and financial repression.

The findings suggest that central bank independence depends less on legal provisions than on broader political contexts. The German case therefore offers historically grounded insights for current debates on political pressure on the Federal Reserve, the Turkish central bank, and the European Central Bank.

Zusammenfassung

Diese Arbeit untersucht, wie politischer Einfluss auf die Zentralbank die makroökonomische Entwicklung im Deutschland der Zwischenkriegszeit prägte. Im Mittelpunkt steht die Reichsbank im Zeitraum von 1928 bis 1937, der sowohl die späte Weimarer Republik als auch die frühe Herrschaft des Nationalsozialismus umfasst. Mithilfe eines neu entwickelten Interventionsindex, der zwischen diskursivem Druck, direkten Weisungen und institutionellen Reformen unterscheidet, werden die Auswirkungen auf Arbeitslosigkeit, Industrieproduktion, Inflation und Wechselkurs mit Local Projections geschätzt.

Die Ergebnisse zeigen, dass politische Interventionen vor der Bankenkrise von 1931, als die Reichsbank noch an den Goldstandard gebunden war, kaum messbare Effekte hatten. Erst mit der Krise und dem Wegfall externer und institutioneller Beschränkungen konnten politische Akteure stärker auf die geldpolitische Entscheidungsfindung einwirken. Institutionelle Veränderungen nach 1933, insbesondere die Neuordnung der Reichsbankführung und die zunehmende staatliche Lenkung der Kreditvergabe, gingen mit einem spürbaren Rückgang der Arbeitslosigkeit einher, wobei mehrere Faktoren gleichzeitig wirkten und die Ergebnisse daher vorsichtig zu interpretieren sind. Die Industrieproduktion wurde durch die intensivierte Kreditlenkung und die stärkere wirtschaftspolitische Steuerung unterstützt. Der Wechselkurs unterlag zunehmend direkter Kontrolle, während die Inflation durch Preisvorgaben und finanzielle Repression niedrig gehalten wurde.

Insgesamt sprechen die Ergebnisse dafür, dass Zentralbankunabhängigkeit weniger von rechtlichen Vorgaben als vom politischen Umfeld abhängt. Der historische Befund aus Deutschland liefert damit relevante Anhaltspunkte für aktuelle Debatten über politischen Einfluss auf die Federal Reserve, die türkische Zentralbank und die Europäische Zentralbank.

Contents

List of Abbreviations	6
1 Introduction	7
2 Background and Literature Review	9
2.1 Historical orientation	9
2.2 Approaches and Concepts of Central Bank Independence	11
2.3 Hypotheses	13
2.4 Contribution	15
3 Data	17
3.1 Macroeconomic variables	17
3.2 Intervention	18
3.3 Data design and cleaning	19
3.4 Missing-data handling	20
3.5 Index construction	20
3.6 Control variables	22
4 Econometric Method	24
4.1 Motivation for Local Projections	24
4.2 Model Specification	24
4.3 Structural Break and Interaction Terms	25
4.4 Strengths and Weaknesses of the Method	26
5 Results	27
5.1 Main Impulse Responses	27
5.1.1 Inflation	28
5.1.2 Unemployment	30
5.1.3 Industrial Production	32
5.1.4 Exchange Rate	34
5.2 Pre- and Post-1931 Dynamics	36
6 Discussion	38
6.1 Positioning the Results within Theory and Literature	38
6.2 Interpretation of the Results	39
6.3 Relevance for Historical and Economic Debates	40
6.4 Limitations	42
6.5 Implications	43
7 Conclusion	45
8 Bibliography and Data Sources	47
9 Appendix	52
9.1 Tables	52
9.2 Graphs	60

9.3	Intervention Taxonomy (K1–K3)	61
9.4	Event Overview (Compressed from the Coded Spreadsheet)	62
9.4.1	K1: Discursive or Institutional Pressure	62
9.4.2	K2: Political Intervention (Personnel or Directives)	63
9.4.3	K3: Institutional or Ideological Transformation	64

List of Abbreviations

AI	Artificial Intelligence
CBI	Central Bank Independence
COVID-19	Coronavirus Disease 2019
DSGE	Dynamic Stochastic General Equilibrium
ECB	European Central Bank
ER	Exchange Rate
FRASER	Federal Reserve Archival System for Economic Research
FRED	Federal Reserve Economic Data
HAC	Heteroskedasticity and Autocorrelation Consistent
IMF	International Monetary Fund
IP	Industrial Production
IPE	Institute for International Political Economy
IRF	Impulse Response Function
LP	Local Projections
NBER	National Bureau of Economic Research
NS	National Socialist
NSDAP	National Socialist German Workers' Party
RM	Reichsmark
UE	Unemployment
UK	United Kingdom
USD	United States Dollar
VAR	Vector Autoregression

1 Introduction

Central banks are widely regarded as important institutions for economic stability. In much of the postwar period, their independence from direct political influence has been viewed as a mechanism to provide credibility and to shield monetary policy from short-term political pressures. In recent years, however, the question of central bank independence has returned to the forefront of debate. During his second term, President Trump has again intensified his public criticism of the Federal Reserve and Chair Jerome Powell, pressuring the institution to adopt a looser monetary stance. In Turkey, President Erdoğan has intervened even more directly since 2019, repeatedly replacing central bank leadership to enforce his views on interest rates, with substantial consequences for inflation and exchange rate stability. In Europe, the European Central Bank has taken on new responsibilities in successive crises, from sovereign bond purchases during the euro area debt crisis in the 2010s to emergency lending during the COVID-19 pandemic in 2020 and, more recently, support for the economic adjustment following Russia's 2022 invasion of Ukraine and the associated sanctions.

These developments illustrate that central bank independence is not a fixed or uncontested arrangement. Political influence can manifest through different channels: discursive pressure in public debate, binding directives or personnel decisions, and institutional reforms that alter governance structures. The question that follows is whether democratic institutions are robust enough to accommodate these pressures while preserving credibility, or whether growing political influence signals a gradual redefinition of the balance between autonomy and accountability. When viewed in a larger context, this connects to the ongoing discussion of whether liberal democracies remain resilient in times of crisis, or whether tendencies towards stronger political control are re-emerging even in advanced economies. This debate has particular resonance in the German context. Historical experiences of hyperinflation and politicized monetary governance shaped a lasting preference for central bank autonomy, which after 1945 became embedded in the institutional design of the Bundesbank and later influenced the European Central Bank (Mee, 2019). Placing the Reichsbank of the interwar period within this longer historical context allows the analysis to not only refer to past crises, but also to establish a connection to current concerns regarding the resilience of central bank independence.

The German interwar experience provides an instructive case in this regard. The Weimar Republic combined democratic institutions with a Reichsbank that operated under the external constraints of the gold standard and reparations oversight. Up to 1931, political interventions rarely translated into measurable macroeconomic effects, as the institutional framework prioritized external balance over domestic stabilization. The banking and currency crisis of July 1931 altered this environment: capital controls, standstill agreements, and the suspension of convertibility weakened the pre-existing rules, and the subsequent erosion of Reichsbank autonomy created new channels for political influence. After 1933, the Nazi regime restructured monetary governance more fundamentally, subordinating credit allocation to political priorities, including rearmament. This sequence makes it interesting to

study how different forms of intervention - discursive, directive, and institutional - affected unemployment, prices, production, and the exchange rate in a context of political transformation.

The aim of this study therefore is to examine how political influence on monetary institutions interacted with macroeconomic outcomes in interwar Germany, and considers how these findings speak to contemporary debates on central bank independence. By quantifying the effects of different categories of intervention, the analysis contributes to the literature on the political economy of central banking and on the interaction between institutions and crisis management.

2 Background and Literature Review

2.1 Historical orientation

Since this thesis is an economic–history study, the empirical results must be read against the concrete institutional and political setting of interwar Germany. This section provides the institutional and political background necessary for interpreting the empirical results, highlighting how the shift from gold-standard discipline to political control changed the transmission of interventions. Two forces shaped that setting and often pulled in opposite directions: the discipline of the interwar gold standard and a rapidly shifting political landscape. It is also important to mention that Germany’s defeat in World War I and the Versailles settlement imposed reparations, a debt overhang, and external oversight (later via the Dawes/Young plans), which framed fiscal consolidation and the return-to-gold strategy and contributed to the Republic’s political fragility. After a period of relative stabilization in 1923/24, the Reichsbank returned to a doctrine that prioritized external balance and convertibility. Price stability and growth were secondary. Over time the bank accumulated modern instruments and authority, yet gold remained an impediment that constrained discretionary stabilization policy (Heine & Herr, 2021).

The Weimar Republic combined relatively advanced democratic institutions with pronounced fragilities. Proportional representation and a broad spectrum of political parties produced fragmented parliaments and unstable coalitions. Presidential emergency powers, which were initially designed as a safeguard, became a routine governing device from 1930 onward. Fiscal consolidation after the hyperinflation fostered a deflationary mind-set, and monetary policy was tied to external commitment under the gold standard. In this environment, and given the economic knowledge available at the time, countercyclical policies were not seriously considered for a long time. Distribution conflicts, for example in the areas of taxation, transfer payments or wages, repeatedly led to cabinet crises. These institutional and political characteristics created the conditions for macroeconomic shocks to be transferred into politics (Klausinger, 1997; Kopper, 1998).

Following the return to parity and capital-market integration, policy placed exchange-rate defense and external balance first. Discount-rate policy and liquidity management were calibrated to sustain convertibility. Discretionary domestic stabilization was limited and subordinated to the parity objective. In short: before 1931, the operating rule was external commitment, not domestic demand management (Heine & Herr, 2021).

The global downturn exposed the fragility of this arrangement. Fixed parities transmitted negative demand shocks and favored deflation rather than devaluation as the adjustment mechanism. Banking distress tightened financial conditions and amplified contraction. In Germany, the 1931 banking and currency crisis, followed by standstill agreements and exchange controls, marked a decisive regime break. The crisis weakened private banks and widened the scope for state-directed credit, shifting bargaining power from financial intermediaries to the state (Temin, 1993).

Mass unemployment and declining incomes reduced support for centrist coalitions

and increased the appeal of parties at the political margins. From 1930 onward, presidential cabinets governed without stable parliamentary majorities, and elections increasingly served as referenda on crisis management. The rise of the NSDAP coincided with the lowest point of the downturn. In May 1932, its Reichstag faction presented an Economic Urgent Action Programme that included proposals for a stronger public role in banking and credit, indicating an intention to reconfigure the institutional framework of financial intermediation at a time when banks were already reliant on Reich support after 1931 (Kopper, 1998).

Hitler was appointed Chancellor on 30 January 1933; within weeks, the political order was reshaped. In March 1933, Hjalmar Schacht returned as Reichsbank President, bringing with him a strong reputation in domestic and international finance, and acted, *de facto*, as plenipotentiary for credit and banking policy. His role in the 1923–24 stabilization and in reparations diplomacy made him an important signal of continuity to domestic and foreign creditors. Recent scholarship, however, indicates that he was politically far closer to the new regime than post-war narratives suggest, which helps explain why he quickly became an institutional anchor of its early economic programme.

Schacht stabilized the banking system and shielded it from arbitrary intervention while redirecting monetary instruments toward regime priorities, particularly rearmament. Control was initially exercised through appointments, directives and administrative guidance; legal changes followed. The Kreditwesengesetz standardized reporting and strengthened supervisory powers. Contemporary observers noted that this early phase was marked by caution, as the regime sought to preserve financial confidence by protecting the Reichsbank under Schacht from overt political interference.

Yet by the end of 1934, policy increasingly bypassed market mechanisms, with credit allocation subordinated to state priorities and justified in terms of *Wehrwirtschaft* (Wolfe, 1955). Personnel continuity later reinforced this shift: Schacht’s protective function gave way to the more politically aligned leadership of Walther Funk, a key architect of the regime’s autarky and rearmament agenda, and Emil Puhl, who oversaw foreign-exchange administration and integrated the Reichsbank more tightly into the Four-Year Plan structures (Gehlen & Marx, 2025). By 1939, a new Reichsbank law eliminated the fiction of independence altogether (Ritschl, 2024).

Before 1931, the Reichsbank’s rigidity was not obstinacy for its own sake but the consequence of a rule: parity defence under gold and the prioritisation of external balance. This institutional constraint can be understood through the classical open-economy trilemma: with fixed exchange rates and increasingly mobile capital, monetary autonomy had to be sacrificed, as any attempt to ease domestic conditions risked reserve losses and a credibility penalty. In such a framework, the Reichsbank’s instruments were effectively tied to the defence of parity, making discount-rate policy, liquidity management, and the reluctance to monetise fiscal deficits coherent, and under global deflationary pressure, pro-cyclical—responses to the regime (Artis et al., 1988). After the break, the rule changed: exchange controls and administrative steering allowed political directives to map more directly into credit allocation

and, through that channel, into output, prices, and the exchange rate (Kopper, 1998).

In the period leading up to the collapse of the gold standard, the government had adopted a deflationary adjustment strategy under Chancellor Heinrich Brüning. From 1930 onward, Brüning pursued policies aimed at maintaining external balance and restoring confidence under the gold standard. The debate around Brüning's deflation hinges on whether feasible alternatives existed. The *Borchardt thesis* argued that tight external and fiscal constraints left little room for Keynesian-style expansion (Borchardt, 1984). Later work revisited that claim, noting that proposals for public works and credit facilitation were on the table but ran into political, institutional, and market-access constraints. Policy space was limited and continued to narrow as the crisis deepened and credibility eroded. This debate matters here because it clarifies how expectations and institutions conditioned the translation of political pressure into macroeconomic outcomes (Klausinger, 1997).

Overall, it can be said that these events justify modeling Germany as a regime switch around mid-1931. Before the break, external commitment and limited autonomy muted the transmission of political signals; after the break, politicized governance and administrative controls strengthened that transmission. This institutional narrative underpins the Post-1931 interaction in the empirical sections below.

2.2 Approaches and Concepts of Central Bank Independence

Modern approaches to central bank independence (CBI) build on the idea that monetary credibility is difficult to achieve when governments retain full discretion over policy. The classic time-inconsistency framework of Barro and Gordon (1983) and Rogoff (1985) demonstrates that governments have incentives to announce a restrictive stance but implement an unexpected monetary expansion *ex post* to stimulate activity. Forward-looking private agents anticipate this temptation, generating an inflation bias without sustained real gains. Delegating monetary authority to an independent and inflation-averse central bank mitigates this problem by anchoring expectations. A large empirical literature, beginning with Cukierman (1992) and consolidated by Alesina and Summers (1993), finds that higher CBI is robustly associated with lower inflation and no systematic long-run costs for growth or employment. Subsequent cross-country studies confirm that more independent central banks also reduce inflation persistence and tail risks (Jácome & Pienknagura, 2022).

The broader institutional literature distinguishes between *de jure* and *de facto* independence. While statutes codify appointment rules, instrument autonomy, and financing constraints, actual independence depends on political practices, oversight mechanisms, and informal pressure (Eijffinger & De Haan, 1996; Masciandaro et al., 2021). Political-economy research emphasises that credibility arises within a domestic political structure: coalition instability, cabinet duration, partisan competition, and executive discretion systematically condition whether formal statutes bind in practice (Bernhard, 1998). These contributions collectively show that institutional design interacts with political incentives and that legal insulation alone

rarely guarantees credible monetary restraint.

A key bridge between credibility theory and political constraints is provided by Simmons (1994), who formalises how political risk shapes expectations under fixed exchange-rate regimes. Simmons argues that financial markets evaluate not only the statutory design of monetary institutions but also the political conditions that determine whether governments can sustain a non-inflationary stance. Credibility weakens when observable political factors increase the perceived probability of inflationary finance, capital flight, or external imbalance. Four mechanisms are central in this regard: (i) unstable governments face short time horizons and weaker incentives to maintain austerity; (ii) partisan preferences—especially left-leaning governments—are interpreted as prioritising employment over price stability; (iii) labour unrest raises the likelihood of accommodative policy; and (iv) low central bank autonomy increases expectations of deficit monetisation. These mechanisms articulate how political dynamics erode credibility, even under rule-based regimes.

Credibility is therefore state-contingent. Research on regime type shows that in democracies, CBI constrains electoral cycles and stabilises expectations, whereas in authoritarian settings, independence can conflict with regime priorities and fiscal discretion, generating incentives to limit or reverse autonomy (Bodea & Hicks, 2015; Bodea et al., 2019). This insight parallels historical examples—including interwar Germany—where administrative control and enforcement capacity, rather than legal statutes, shaped the practical autonomy of monetary authorities (Kopper, 1998; Ritschl, 2024).

Standard CBI indices, whether based on statutory characteristics or long-run institutional averages, are static by construction and therefore poorly suited for environments in which political pressure is episodic, strategic, and cumulative. This is a central limitation in both the early legalistic literature (Cukierman, 1992; Eijffinger & De Haan, 1996) and later political-economy approaches (Bernhard, 1998; Masciandaro et al., 2021). These measures capture institutional arrangements, but not the *process* through which governments exert influence. Likewise, political-risk indicators used in comparative macro studies, such as cabinet duration, partisan shifts, or labour conflict (Simmons, 1994), identify conditions correlated with credibility loss but not the interventions themselves. What is missing is a tool that bridges the conceptual gap between (i) long-run institutional characteristics and (ii) short-run political actions that erode *de facto* autonomy.

To address this gap, this thesis develops a dynamic, event-based index of political influence on central banking. It captures *when*, *how*, and *through which channel* political pressure is exerted and is specifically designed for institutional environments where autonomy changes over time, such as interwar Germany.

Its conceptual structure is derived from the mechanisms highlighted in the theoretical and comparative literatures. First, the signalling channel emphasised in Simmons’ framework suggests that markets respond not only to policy actions but also to rhetoric, threats, and discursive coordination. These soft interventions rarely register in statutory measures but can meaningfully influence expectations. Category *K1* therefore captures discursive pressure, including statements, public criti-

cism, or informal guidance—interventions that map onto anticipatory channels in the political-risk literature.

Second, modern political-economy work stresses that *de facto* independence is often constrained not through legislation but through personnel appointments, hierarchical oversight, and administrative instructions (Bernhard, 1998; Masciandaro et al., 2021). These mechanisms define the practical operational autonomy of monetary authorities. *K2* therefore records binding directives, appointment interventions, and administrative constraints that directly limit instrument use. This category corresponds to the “operational control” dimension present in empirical CBI work but introduces a dynamic, event-based measurement strategy suitable for historical data.

Third, regime transitions, whether authoritarian centralisation, ideologically driven restructuring, or fundamental changes in oversight, alter the constraint set in ways that go beyond signalling or direct commands. Historical studies of the Reichsbank, particularly after 1933, show that institutional redesign shifted monetary policy from a rule-governed setting to an administratively steered system (Kopper, 1998; Ritschl, 2024). This is consistent with findings that authoritarian regimes revert independence when fiscal or political priorities dominate (Bodea & Hicks, 2015; Bodea et al., 2019). *K3* captures such structural transformations: legal changes, organisational redesign, or ideological reorientation that redefine the governance regime itself.

Taken together, the *K1–K3* index thus operationalises three layers of political influence central to both the theoretical and comparative literatures: (i) anticipatory signalling, (ii) operational control, and (iii) institutional restructuring. Unlike static indices, it captures *when*, *how*, and *through which channel* political pressure was exerted. This dynamic structure is particularly relevant for interwar Germany, where political interventions were highly episodic before 1931, increasingly directive after the crisis, and ultimately institutionalised under the Nazi regime. The index therefore provides the conceptual and empirical bridge necessary to analyse how evolving forms of political influence mapped into monetary and macroeconomic outcomes across different institutional regimes.

2.3 Hypotheses

The theoretical and political-economy perspectives outlined above allow formulating expectations about how political interventions should influence macroeconomic outcomes in interwar Germany. These expectations draw on two mechanisms: the credibility problems highlighted in the time-inconsistency literature, and the political-risk channels identified by Simmons, through which markets update beliefs about the willingness and capacity of governments to maintain monetary discipline. Applied to the Reichsbank, both perspectives imply that increasing political pressure, captured by *K1*, *K2*, and *K3* events, should erode anti-inflationary credibility and reduce monetary autonomy. The hypotheses below translate these mechanisms into testable propositions.

H1: Political intervention weakens credibility and raises inflationary pres-

asures.

Where monetary institutions lack de facto independence, markets expect a greater likelihood of accommodative credit provision and a closer alignment between fiscal and monetary policy. Time-inconsistency models show that governments have incentives to exploit short-term stimulus, while Simmons' framework emphasises how political instability, partisan conflict, or labour unrest increase inflation expectations under fixed exchange-rate regimes (Simmons, 1994). For the Reichsbank, this suggests that rising political intervention, particularly of the K2 and K3 type, should be associated with upward pressure on prices, because credibility weakens and expectations adjust accordingly.

It is important to emphasise that under the interwar gold standard deflation constituted the central macroeconomic problem. In such a regime, even moderate price increases could be interpreted as relief from the contractionary pressures imposed by external parity constraints rather than as a loss of monetary discipline. Political interventions that reduced de facto autonomy may therefore have been perceived as a potentially desirable escape from deflationary adjustment.

H2: Political intervention is associated with attempts to stimulate activity and reduce unemployment.

Interventions directed at the central bank typically reflect the political objective to stabilise economic conditions, especially during downturns. Governments facing high unemployment or social instability have incentives to seek short-term improvements in output and employment. Political pressure, whether discursive (K1), directive (K2), or institutional (K3), should therefore coincide with measures that support production and reduce unemployment in the short run, even if such effects are temporary or come at the cost of weakening monetary discipline.

H3: Under the gold standard, the exchange rate responds only weakly to political pressure before 1931 but becomes more responsive thereafter.

Before 1931, the Reichsbank operated under the external commitments of the interwar gold standard and the constraints summarised by the trilemma. With fixed parities and increasingly mobile capital, monetary autonomy was limited, and markets evaluated policy primarily through the lens of parity defence and reserve protection. Political signals had little scope to influence exchange-rate expectations. Although Germany did not formally abandon the gold standard in 1931, the banking and currency crisis effectively suspended its operation. Standstill agreements, capital controls, and expanding foreign-exchange administration severed the practical link between domestic money and external convertibility while maintaining a formal parity. Accordingly, political interventions should have minimal measurable effects on the exchange rate before July 1931.

After July 1931, the expectations environment changed. With convertibility suspended in practice, foreign-exchange policy was shaped less by external rules and more by administrative decisions. In this setting, political directives and institutional changes, especially of the K2 and K3 type, should have a stronger influence on the exchange rate.

H4: The 1931 crisis constitutes a structural break that strengthens all transmission channels.

The events of July 1931 represent a fundamental institutional shift. Before the crisis, the Reichsbank's commitment to parity defence and the rigidity of the external-commitment regime limited the transmission of political pressure into macroeconomic outcomes. Expectations were anchored by reserve protection, which reduced the effect of discursive signals or attempted political steering.

After the suspension of convertibility in practice, exchange controls, standstill agreements, and increasing administrative oversight altered the transmission mechanism. Monetary governance shifted from an externally constrained system to one shaped by political and administrative discretion. In this environment, interventions of the K2 and K3 type could influence credit allocation, liquidity, and exchange-rate management more directly. Political intervention should therefore have weaker effects before 1931 and stronger effects after the institutional rupture.

Taken together, these hypotheses provide a structured analytical framework for examining how political influence interacted with the institutional architecture of interwar monetary policy. Declining de facto independence is expected to weaken credibility and place upward pressure on prices (H1). Political interventions are expected to support real activity in the short run (H2). The exchange rate should respond only weakly to political pressure before 1931 but more clearly once the external anchor was effectively suspended (H3). Finally, the crisis of 1931 should amplify all transmission mechanisms by shifting monetary governance from an externally constrained to an administratively directed system (H4).

The empirical analysis in the following sections tests these expectations by examining how unemployment, production, prices, and the exchange rate responded to political intervention across the contrasting institutional regimes of the Weimar Republic and the early Nazi period.

2.4 Contribution

The example of Germany from the beginning of the interwar period offers an interesting field of study due to its uniqueness. The empirical testing of these predictions allows the thesis to contribute directly to three specific strands of literature. While the modern CBI literature repeatedly finds that greater independence lowers inflation without long-run real costs, it rarely specifies which types of interventions drive these results or how they operate in practice. Interwar Germany allows us to open this black box: interventions ranged from discursive pressure (*K1*) to binding directives (*K2*) and eventually institutional redesign (*K3*). This variation makes it possible to trace how different forms of political influence mapped into macroeconomic outcomes.

Besides that, the historical setting raises the possibility of counterintuitive short-run effects. In a fragile environment of external constraint, banking distress, and regime change, interventions that are usually associated with credibility gains may instead have amplified volatility, or shifted expectations in unexpected ways. Identifying

these dynamics is essential for understanding how rules, institutions, and politics interacted in the interwar economy.

This contribution connects to three categories of literature which were discussed in this chapter. First, it speaks to the German historiography on policy feasibility and the Borchardt debate by quantifying how far interventions actually moved output, prices, and the exchange rate. Second, it links to the comparative political-economy work on CBI (Alesina and Summers (1993), Cukierman (1992), Jácome and Pienknagura (2022), and Masciandaro and Romelli (2015)), extending its insights to a historical episode with sharp institutional breaks. Third, it complements research on crisis politics and the political nature of central banking (Bodea and Hicks (2015), Bodea et al. (2019), Fernández-Albertos (2015), and Seville (2017)) by showing how credibility and enforcement capacity mattered under conditions of heightened uncertainty.

3 Data

In order to conduct the study, it was necessary to collect monthly data for Germany that combines macroeconomic series with a hand-coded intervention index capturing public and political pressure on monetary policy. The observation window covers the late Weimar period and the beginning of the Nazi regime, starting in 1928 and ending in 1937 with a structural break in July 1931 (the banking crisis).

3.1 Macroeconomic variables

Unemployment and the cost-of-living index (which forms the basis for the inflation measure used below) are taken from the *Statistisches Jahrbuch für das Deutsche Reich*. The relevant tables for unemployment are reported in the 1939 edition, while the data on cost-of-living expenses stem from the 1938 edition. Both series are available at monthly frequency and were transcribed and standardised to ensure consistent units and comparability across the sample.

The nominal exchange rate is taken from *Banking and Monetary Statistics, 1914–1941* (Board of Governors of the Federal Reserve System, 1943). The original source reports the value of one Reichsmark in U.S. cents; the RM–USD series used here therefore reflects an administratively influenced exchange-rate regime rather than a market-clearing price, especially after 1933.

Industrial production is drawn from the *Statistisches Handbuch der Weltwirtschaft: 1937*, which provides monthly sectoral production indices for the years 1932–1936. The original series are reported with a base year of 1928 = 100, and this normalisation is retained here for consistency with the historical source.

In addition, the Reichsbank discount rate is used as a control variable in the empirical specification. This series is obtained from the Federal Reserve Bank of St. Louis (FRED) database (series M13015DEM156NNBR), originally compiled as part of the NBER Macrohistory project. Since the policy rate enters only as an exogenous control and is not central to the descriptive macroeconomic narrative, it is not plotted in the overview figure.

Many of the historical series, particularly those from the *Statistisches Jahrbuch für das Deutsche Reich*, were not available in machine-readable form. They were therefore manually transcribed, checked against the original volumes, and harmonised to a monthly format. All data were standardised with respect to units, base years, and seasonal reporting practices prior to merging the full macroeconomic panel.

To provide an overview of the macroeconomic environment in which political interventions occurred, Figure 1 plots the four central series used in the empirical analysis: the cost-of-living index (base 1913/14 = 100), the RM–USD exchange rate (U.S. cents per Reichsmark), industrial production (index, 1928 = 100), and unemployment (absolute number of registered unemployed). The figure illustrates the defining features of the period: the pronounced deflation of 1929–1932, the collapse and subsequent recovery of industrial activity, the peak in unemployment in 1932, and the visible regime shift in the exchange-rate series following the administrative

tightening of foreign-exchange controls after 1933. These dynamics motivate both the choice of variables and the institutional break introduced in July 1931 and frame the empirical results presented in the following sections.

Macroeconomic Time Series, 1928–1937

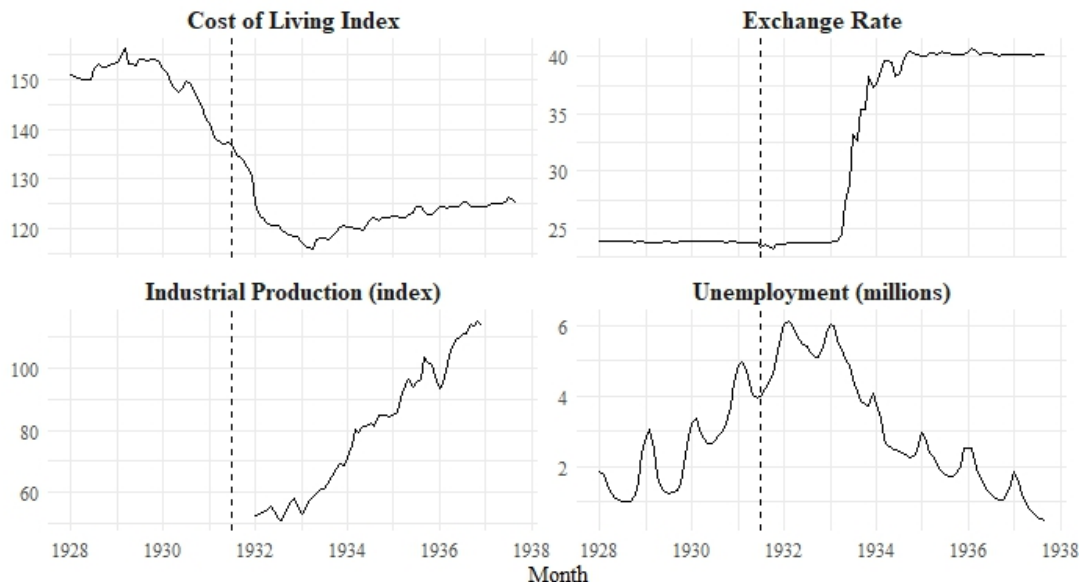


Figure 1: Top left: cost-of-living index (base 1913/14 = 100). Top right: nominal exchange rate (U.S. cents per Reichsmark). Bottom left: industrial production (index, 1928 = 100), based on the monthly production tables in the *Statistisches Handbuch der Weltwirtschaft: 1937* (Statistisches Reichsamt). Bottom right: registered unemployment (absolute numbers). Data sources: *Statistisches Jahrbuch für das Deutsche Reich* (1938, 1939); *Banking and Monetary Statistics, 1914–1941* (Board of Governors, 1943); *Statistisches Handbuch der Weltwirtschaft: 1937*.

3.2 Intervention

The coding of events relies primarily on secondary literature (for example Kopper (1998); Ritschl (2024); Banken (2024); Heine and Herr (2021)) which was used to reconstruct and contextualize the events. Primary sources (e.g., Reichsgesetzblatt, contemporary press reports, diplomatic records) were used selectively for verification and illustration. Events are coded into three categories that reflect the intensity and proximity of pressure:

- Discursive or Institutional Pressure (K1),
- Political Intervention (K2),
- Institutional or Ideological Transformation (K3).

Coding follows a set of predefined criteria, which includes explicit references to the Reichsbank in political or media discourse, the involvement of high-ranking actors, and the visibility of the event in major public fora. Each category is coded with a

binary marker for every month. The detailed coding procedure is described later in the chapter.

To study the 1931 regime shift regarding the gold standard, **Post1931** is defined as a dummy equal to one from July 1931 onward. In the econometric specification the pre-1931 effect, β_{pre} , captures the response to the shock category before the crisis; γ measures the post-shift change (Post minus Pre); and

$$\beta_{\text{post}} = \beta_{\text{pre}} + \gamma$$

is the effect after July 1931.

This mapping is reported throughout tables and impulse-response figures to make pre/post comparisons transparent.

3.3 Data design and cleaning

The analytical dataset is organized at monthly frequency with a single time index (*Monat*). Two spreadsheets (the macro series and the policy-event index) were merged by this month key after harmonizing date formats and sorting chronologically. Because several historical series were digitized from yearbooks and archival tables, the merged panel contains occasional gaps; no values were interpolated.

Transformations

The cost-of-living series (P_t) is taken from the Reich statistical index of living costs (base 1913/14 = 100), which reports monthly index levels rather than pre-computed inflation rates. Contemporary publications typically focused on year-on-year changes, but the underlying index is compiled at monthly frequency.

For the purposes of the dynamic analysis, a month-to-month inflation rate is constructed as

$$\pi_t = 100 \times \left(\frac{P_t}{P_{t-1}} - 1 \right).$$

This measure should be interpreted as the short-run change in the historical cost-of-living index, rather than as an officially published monthly inflation statistic, but it preserves the high-frequency variation required for the local-projection estimations.

A monthly rate is preferable here because the empirical analysis focuses on short-run responses; a year-on-year measure would smooth the underlying variation in prices, complicate the interpretation of lagged effects, and obscure the dynamics that the local-projection framework is designed to capture.

Break dummy

To capture the institutional rupture associated with the 1931 banking crisis, a post-July-1931 indicator is created:

$$\text{Post1931}_t = \mathbf{1}\{t \geq \text{July 1931}\}.$$

This dummy is later interacted with policy shocks to allow the response coefficients to differ before and after the break.

Shock categories and controls

The policy-event index provides three thematic categories (K1–K3) and an Aggregate series. The Reichsbank discount rate (*Zinssatz*) is included as an exogenous control where available. To avoid mechanical endogeneity, this rate is not part of the policy index.

Lags and horizons

In the local-projection setup, the number of lags for the shock variable is selected by dependent variable (unemployment: 2; inflation: 1; industrial production: 1; exchange rate: 0), reflecting differences in the speed with which these variables adjust to shocks. Six lags of the dependent variable are added to absorb persistence. For each forecast horizon $h = 0, \dots, 12$, the target variable is shifted forward (y_{t+h}) and all required lags/leads are rebuilt on the same monthly grid.

3.4 Missing-data handling

After constructing y_{t+h} , lags, the break dummy, interactions, and controls, observations with incomplete information are dropped within that specific horizon only. This horizon-wise (pairwise) deletion preserves all usable information without imposing interpolation across series or horizons. As a result, the effective sample size can differ across h and by dependent variable. This is relevant for the analysis of industrial production, as only a limited data set is available here.

Overall, this workflow should ensure a consistent monthly panel covering the full macro sample (and 1932–1936 for industrial production), with defined transformations, a break indicator at July 1931, shock categories (K1–K3, Aggregate), and a control rate that is kept separate from the index to mitigate endogeneity.

3.5 Index construction

Purpose and guiding idea

The three categories aim to capture a continuum of political influence on the Reichsbank: from public mood (public and institutional pressure, K1), to command (binding interventions, K2), to regime change (institutional or ideological transformation, K3). The coding translates narrative evidence into a monthly series that is used as shocks in the empirical analysis.

Definitions and coding rules

K1: Discursive or institutional pressure (indirect influence): A month is coded as K1 when non-binding political or institutional pressure is clearly directed at

the Reichsbank with the intention of shaping monetary outcomes. Typical situations are sustained press campaigns against the deflationary course, parliamentary or cabinet debates explicitly addressing the discount rate or credit policy, and public interventions by politicians, industry representatives, or senior civil servants urging monetary easing or tightening. Episodes in which Reichsbank officials are drawn into political deliberations without a legal mandate also fall into this class. What unites these cases is the absence of a binding order: pressure is exerted through argument, publicity, and institutional voice rather than command. The expected footprint is short-lived and expectation-driven, with no compelled operational change.

K2: Political intervention (personnel or directives): A month is coded as K2 when a binding political action removes or constrains the bank’s discretion. This includes appointments, removals, or deliberate sidelining of key monetary officials; presidential decrees or ministerial orders that oblige the bank to act in a specific way; and the legal or administrative enforcement of measures such as mandatory rediscounting. In these episodes, political authority translates directly into operational instructions, leaving little room for autonomous decision-making. The expected footprint is immediate and concrete, visible in the instruments of policy rather than merely in public expectations.

K3: Institutional or ideological transformation: A month is coded as K3 when the governance of the Reichsbank itself is fundamentally altered. Examples are *Gleichschaltung* laws that dissolved internal checks (such as the abolition of the *Generalrat*), legal realignments that subordinated the bank’s leadership to the *Führerprinzip*, and the creation or expansion of parallel financing structures—Mefo or Öfffa—that effectively bypassed regular decision channels. Such steps change the rules of the game rather than a single policy decision. The expected footprint is persistent, because authority and procedures are redefined rather than merely steered in the short run.

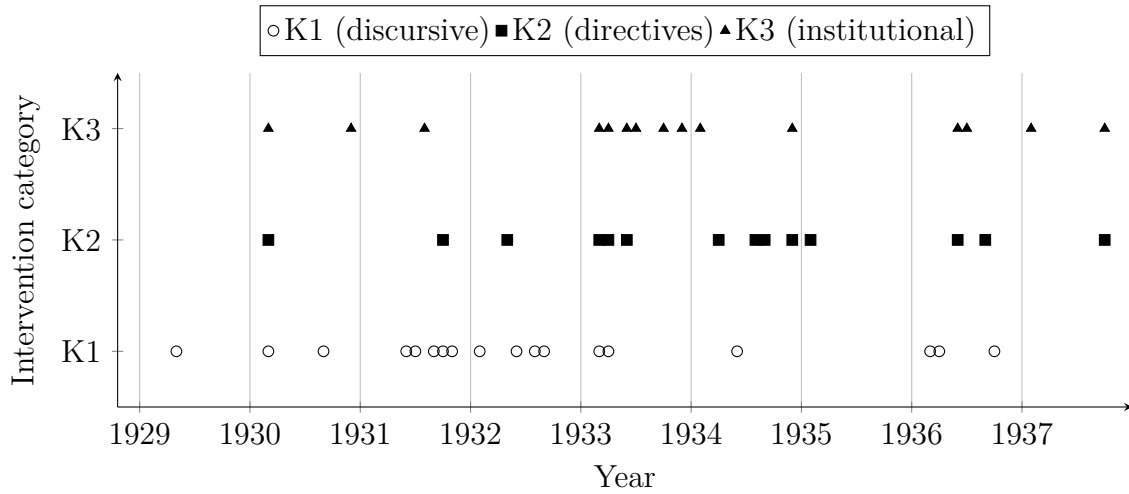


Figure 2: Timeline of political interventions by category (K1–K3), 1929–1937

Boundary logic: If nothing binding occurred, events remain K1; if discretion is removed, K2; if the institutional set-up is changed, K3. In practice, separate events can co-occur in the same month (e.g., a decree plus a public campaign), so multiple categories may be 1 simultaneously. The data intentionally preserve such overlap.

Unit of counting and intensity

The unit of observation is the month. For transparency and to avoid subjective scaling, each category is coded binary:

$$K_i(t) \in \{0, 1\} \quad \text{for } i \in \{1, 2, 3\}.$$

A value of 1 marks at least one qualifying event in month t . Ambiguous months are left at 0. This approach keeps the mapping from sources to data straightforward and comparable across categories.

Scope and totals (1928–1937). The final series contain 18 K1 months, 14 K2 months, and 15 K3 months (total 47 category-months). Clusters occur around mid-1931 and 1933–1936, consistent with the banking crisis, *Gleichschaltung*, and the Four-Year-Plan environment.

Aggregation

An Aggregate indicator summarizes overall political pressure in month t as the sum of the three binaries:

$$\text{Aggregate}(t) = K_1(t) + K_2(t) + K_3(t) \in \{0, 1, 2, 3\}.$$

Hence, 0 denotes no event; 1 a single channel active; 2–3 concurrent channels. Equal weights are used deliberately to avoid imposing subjective judgments about relative importance across K1–K3.

Application of index

In the empirical section, K1–K3 and the Aggregate are treated as monthly shocks. The local-projection setup estimates responses before and after July 1931, allowing the analysis to separate signalling (K1), command (K2), and structural change (K3) and to document their different timing and persistence in macro outcomes.

3.6 Control variables

The control included in the regressions is the Reichsbank discount rate, taken from the Federal Reserve Bank of St. Louis (FRED, series M13015DEM156NNBR). The rate is used as a contemporaneous monetary-stance proxy that is external to the constructed index. It is kept out of the index by design to avoid mechanical endogeneity between the regressor of interest (political pressure/intervention) and a policy instrument that could itself respond to that pressure. In the baseline specification the

rate enters in levels, which is appropriate for a policy rate that changes infrequently at monthly frequency; a change specification is considered in robustness checks and does not alter the narrative.

A break dummy **Post1931** is added only for estimation to allow for a structural shift in coefficients starting in July 1931, the conventional breakpoint associated with the banking crisis and the end of the gold-standard regime. The dummy is not part of the index construction and does not feed back into the definition of K1–K3 or the aggregate. In the regression, the interaction between the shock variable and **Post1931** identifies whether the effect of political pressure/intervention differs before and after the crisis period; in other words, it is used to detect a shift in propagation, not to change the measurement of political influence itself. Formally,

$$\text{Post1931}_t = \mathbf{1}\{t \geq \text{July 1931}\}, \quad \underbrace{\beta_{\text{pre}}}_{\text{pre-1931}} \cdot S_t + \underbrace{\gamma}_{\text{post-pre}} \cdot (S_t \times \text{Post1931}_t),$$

so that the post-1931 effect equals $\beta_{\text{post}} = \beta_{\text{pre}} + \gamma$.

4 Econometric Method

4.1 Motivation for Local Projections

As already mentioned before, the study investigates how political and institutional interventions in central bank decision-making in interwar Germany affected macroeconomic outcomes. It is important to emphasise that in order to choose the right method, that in the case of this study it is required to trace the consequences and impact of distinct events and shocks across time rather than focusing on average contemporaneous correlations. Therefore Local projections (LPs), introduced by Jordà (2005) and further developed in recent surveys (Jordà, 2023), seem to provide a natural framework for this task. Unlike vector autoregressions (VARs), which require joint estimation of an entire system, LPs estimate impulse responses directly by running separate regressions for each forecast horizon (in the case of this study this is done on a monthly basis). This should ensure that issues such as structural breaks and heterogeneous responses can be effectively addressed. Recent methodological reviews emphasise that the choice between LPs and VARs reflects a bias–variance trade-off. While LPs entail higher variance in finite samples, they deliver more robust inference on dynamic effects. This is especially the case when structural breaks or regime shifts are likely (Olea et al., 2025). This makes them particularly suitable for the interwar German case, where institutional changes in the Reichsbank altered the transmission of shocks within a relatively short time frame.

In order to assess the effects of the shocks as accurately as possible, it is necessary to compile the available data sets at the shortest possible frequency. In this case, monthly data are available for unemployment, inflation, the exchange rate, and industrial production (although for Industrial Production only for a smaller time frame), which should allow the short-run and medium-run dynamics of events to be captured at horizons of up to twelve months. Such temporal detail would be obscured in quarterly or annual data. Applications in other historical settings confirm the value of LPs for studying institutional changes: Jácome and Pienknagura (2022), for instance, use local projections to document how improvements in central bank independence in Latin America systematically reduced inflation over horizons of several years. Their results underscore how LPs can trace the dynamic consequences of institutional shifts, a feature relevant for the present study. This is because the political interventions surrounding the Reichsbank can be conceptualized as a series of institutional shifts whose dynamic consequences are precisely the focus here.

4.2 Model Specification

The baseline econometric specification follows the Local Projections (LP) approach by Jordà (2005). For each forecast horizon $h = 0, \dots, 12$, the following equation is estimated:

$$y_{t+h} = \alpha_h + \beta_{\text{pre},h} S_t + \gamma_h (S_t \times \text{Post1931}_t) + \delta_h \text{Post1931}_t + \theta_h X_t + \phi_h(L) y_t + \varepsilon_{t+h}. \quad (1)$$

where:

y_{t+h} = outcome variable at horizon h (inflation, unemployment, industrial produc-

tion, exchange rate)

S_t = political intervention index

$Post1931_t$ = dummy equal to 1 from July 1931 onward

X_t = control variables

ε_{t+h} = error term

The coefficients can be interpreted as follows. $\beta_{pre,h}$ captures the baseline effect of a political intervention S_t on y ; a positive value implies that y increases after an intervention in the absence of interaction effects. γ_h indicates how this response changes after July 1931. A positive value implies a stronger effect in the post-crisis regime, while a negative coefficient implies that the intervention becomes less effective.

The post-crisis coefficient shown in the figures is therefore the sum of both components,

$$\beta_{post,h} = \beta_{pre,h} + \gamma_h.$$

In the impulse-response figures presented in Section 5, the dashed line plots $\beta_{pre,h}$ and the solid line plots $\beta_{post,h}$. Both sets of coefficients come from the same regression; the post-crisis response simply adds the interaction term to the pre-crisis baseline.

The interaction term allows the intervention effect to differ across regimes, while δ_h accounts for level shifts after the crisis so that the comparison of impulse responses is not confounded by mean differences.

The lag structure and controls follow standard LP practice. Six lags of y capture persistence, while the number of lags of S_t varies by outcome (two for unemployment, one for inflation and industrial production, none for the exchange rate). The Reichsbank discount rate is included to capture conventional monetary policy but excluded from the construction of S_t to avoid endogeneity.

Standard errors are heteroskedasticity- and autocorrelation-consistent (HAC), computed using a Newey–West estimator with lag length equal to h . Confidence intervals for $\beta_{post,h}$ are calculated using the Delta method to incorporate the covariance between $\beta_{pre,h}$ and γ_h .

4.3 Structural Break and Interaction Terms

The treatment of the July 1931 banking crisis as a structural break plays an important role in this empirical design. This rupture marked a change in both Germany’s financial system and the institutional autonomy of the Reichsbank. The crisis triggered the introduction of capital controls and coincided with the abandonment of the gold standard, fundamentally altering the constraints under which monetary policy operated. These institutional and macroeconomic changes justify a separate analysis of pre- and post-crisis dynamics, since the same political shocks plausibly propagated very differently depending on whether monetary authorities were bound by gold parity and free capital mobility or operated under a regime of restrictions and diminished credibility.

By interacting the intervention index with the *Post1931* dummy, the specification allows impulse responses to differ across these regimes. This approach isolates whether shocks carried distinct consequences in the fragile pre-crisis environment compared with the politically transformed and financially constrained post-crisis setting. Similar strategies are used in studies of central bank independence, where local projections have been applied to evaluate how institutional reforms altered the transmission of policy to inflation outcomes across historical sub-periods (Jácome & Pienknagura, 2022).

4.4 Strengths and Weaknesses of the Method

As explained before, the use of LPs offers several methodological advantages. First, impulse responses are obtained directly without requiring inversion of a multivariate system, which simplifies interpretation and should avoid strong parametric assumptions. Second, the framework accommodates nonlinearities and regime changes through interaction terms, making it a viable option for historical settings characterized by structural breaks. Third, standard errors can be constructed in a straightforward manner, which ensures transparent inference.

However, it should be noted that LPs also have some limitations. Since each horizon is estimated separately, efficiency losses may occur relative to VARs. This might be the case especially at longer horizons where data become sparser. Jordà (2023) emphasizes that this trade-off is similar to the one between instrumental variables and ordinary least squares: bias reduction comes at the cost of larger standard errors. This is particularly important for the analysis of industrial production, as the data set is more limited in this case and efficiency losses could therefore have a greater impact. For the other variables, efficiency losses are mitigated in this study by the monthly frequency of the data, which provides a comparatively large number of observations. Moreover, as shown by Jácome and Pienknagura (2022), LPs are particularly powerful when the focus lies on documenting regime-dependent dynamic responses rather than on estimating tightly parameterized models.

Simulation evidence from existing literature confirms this trade-off. In thousands of empirically calibrated data-generating processes, LP estimators tend to produce lower bias than VARs but at the cost of substantially higher variance, especially at intermediate and long horizons (Li et al., 2024). This implies that in environments with stable dynamics and large samples, VARs may retain efficiency advantages, whereas in settings characterised by structural breaks and shorter series, LPs are preferable. Earlier work also cautions that LPs are not uniformly superior. Using a calibrated DSGE model for the Euro area, Meier (2005) finds that small-sample bias and variance may at times be larger for LPs than for conventional VARs. This underlines that the relative performance of both methods depends on the data environment. In this study, where institutional regime shifts are central, the robustness of LPs to misspecification outweighs potential efficiency losses.

In the end, the advantage of local projections in dealing with structural breaks outweighs their limitations, which makes them a suitable framework to analyze the dynamic effects of political pressure in the late Weimar Republic.

5 Results

This section presents the empirical results and evaluates them in light of the hypotheses formulated in Section 2.3. Political interventions (K1–K3 and the aggregate index) enter as shocks in the local projection framework introduced in Section 4, and four outcome variables are examined: inflation, unemployment, industrial production (available for 1932–36), and the exchange rate.

The analysis proceeds in two steps. First, the chapter documents the principal impulse responses of each variable to political interventions, focusing on the aggregate index and major institutional changes (K3), which theory identifies as the most meaningful threats to central bank independence. These results speak most directly to Hypotheses H1 and H2, which expect inflationary pressures and expansionary real effects following political interventions.

Second, the chapter contrasts the pre- and post-1931 regimes to assess how the banking crisis altered the transmission of political shocks. This comparison allows us to evaluate Hypotheses H3 and H4 concerning the insulating role of the gold-standard regime and the structural break introduced by the crisis.

To maintain clarity in the main text, the discussion focuses on the graphical presentation of impulse responses for the aggregate index and for K3. All corresponding coefficient tables, as well as the full results for K1 and K2, are reported in the Appendix.

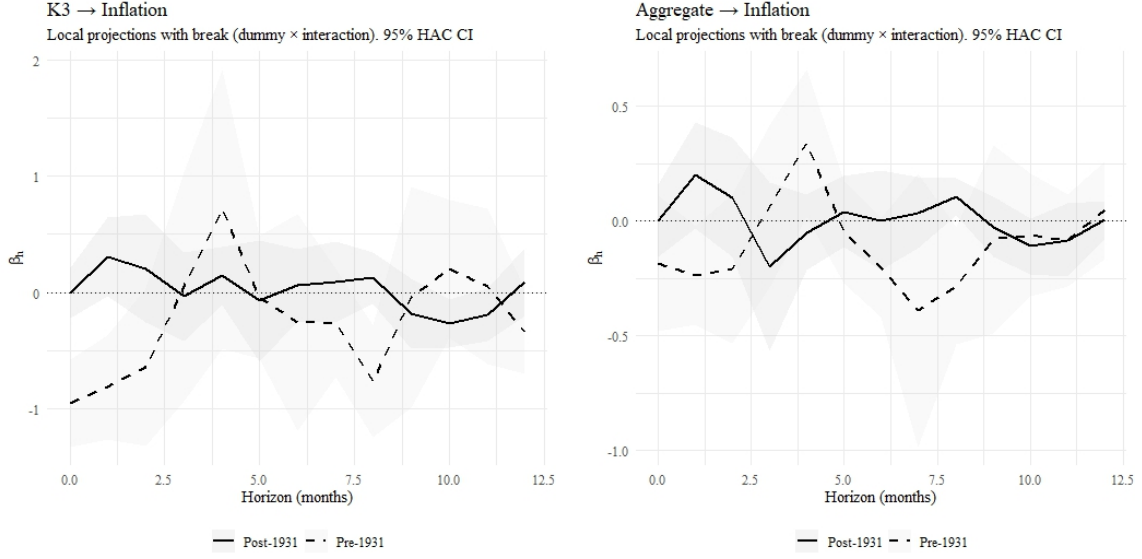
5.1 Main Impulse Responses

This subsection summarises the dynamic effects of political interventions on inflation, unemployment, industrial production, and the exchange rate. In line with the theoretical motivation and the hypotheses in Section 2.3, the main text concentrates on impulse responses to (i) the aggregate political intervention index and (ii) major institutional transformations (K3). These two measures capture the substantive erosion of central bank independence and are therefore the most informative specifications for understanding the transmission mechanism.

To keep the exposition focused, only the aggregate and K3 responses are shown in the figures below. Discursive pressure (K1) and political directives (K2) are not plotted in the main text because their effects are generally small, short-lived, or imprecisely estimated. They remain theoretically relevant—especially for short-run inflation dynamics—and their full impulse response functions, including confidence intervals, are reported in the Appendix.

The following subsections highlight the central empirical patterns for inflation, unemployment, industrial production, and the exchange rate, and relate them to the regime contrast before and after the 1931 crisis.

5.1.1 Inflation



(a) Institutional transformations (K3)

(b) Aggregate political interventions

Figure 3: Impulse responses of inflation to K3 and aggregate shocks. Both show mild but more persistent post-1931 effects.

The inflation responses speak directly to Hypothesis H1, which predicts that political interventions should weaken monetary credibility and exert upward pressure on prices. Figure 3 summarises the main empirical patterns for K3 and the aggregate index; responses for K1 and K2 are documented in the Appendix.

Before 1931, inflation remains essentially unresponsive to both aggregate and K3 shocks. This is fully consistent with the gold-standard framework described in Section 2.1: as long as external convertibility and parity defence constrained the Reichsbank, political interventions, such as the government’s repeated attempts in late 1930 and early 1931 to pressure the Bank to reduce discount rates or ease credit conditions (Appendix 9.4), did not translate into measurable price changes. Under the pre-crisis regime, credibility rested primarily on the gold parity, which sharply limited the scope for monetary accommodation. The K1 events coded in Appendix 9.1, Table 6—for instance the Young Plan crisis in March 1930 or the debates around the Hoover moratorium in mid-1931—illustrate this: they generated intense political and media pressure but left the price level essentially unchanged.

After 1931, the pattern changes modestly but systematically. K3 shocks are associated with small yet persistent increases in inflation over several horizons (Figure 3a). In line with the discussion in Section 2.3, these moderate price increases are best interpreted as a partial escape from the deflationary bias of the interwar gold standard rather than as a loss of monetary discipline. Numerically, the post-1931 coefficients for K3 shocks in Appendix 9.1, Table 2 reach only a few tenths of a percentage point at their peak, but remain positive over a range of horizons, indicating a modest yet persistent drift in prices. This aligns closely with the historical sequence of institu-

tional events documented in Appendix 9.4 and coded as K3 in Table 8: Schacht's return as Reichsbankpräsident in March 1933, the Civil Service Law and ideological purge of the Bank in spring 1933, the founding and rapid expansion of Mefo GmbH from mid-1933 onward, and the subsequent tightening of capital-market steering and banking legislation in 1933–34. Taken together, these steps structurally curtailed Reichsbank autonomy and created a persistent transmission channel from political influence to prices.

K2 interventions, by contrast, generate only short-lived movements in inflation because they did not modify the underlying institutional architecture of monetary policy (see Appendix 9.1, Table 2). At impact, some K2 directives (such as the 1933–34 measures mandating rediscounting of specific bills or legally enforcing credit allocation, recorded in Table 7) produce noticeable but transitory changes in inflation that vanish within a few months. Their transient effects reinforce the conclusion that only deeper structural shifts, not isolated directives, created a persistent transmission channel from politics to prices.

A further reason for the muted overall inflation response lies in the broader policy environment of the 1930s. Beginning in 1933, the regime introduced extensive administrative controls: price ceilings, wage discipline under compulsory arbitration, rationing of key goods, import quotas, and, after 1934, a comprehensive system of foreign-exchange controls. In addition, the 1936 Four-Year Plan and its takeover of foreign-exchange policy (coded as K3 in Table 8) tightened administrative management of external prices and quantities. These measures effectively decoupled domestic prices from underlying monetary pressures. Moreover, even after the suspension of effective convertibility in 1931, the authorities continued to stabilise the Reichsmark through tight foreign-exchange administration, limiting the pass-through from external prices into domestic inflation. As a result, institutional subordination (K3) facilitated credit expansion and fiscal accommodation, but headline inflation remained artificially contained within a highly managed price regime.

Taken together, the inflation results provide qualified support for H1: political interventions did weaken the real constraint imposed by the gold standard and generated persistent upward pressure on prices, but the magnitude of the effect remained moderate because the regime increasingly relied on administrative controls rather than open inflation. Full coefficient estimates for the aggregate and K1–K3 specifications are reported in Appendix 9.1, Table 2.

5.1.2 Unemployment

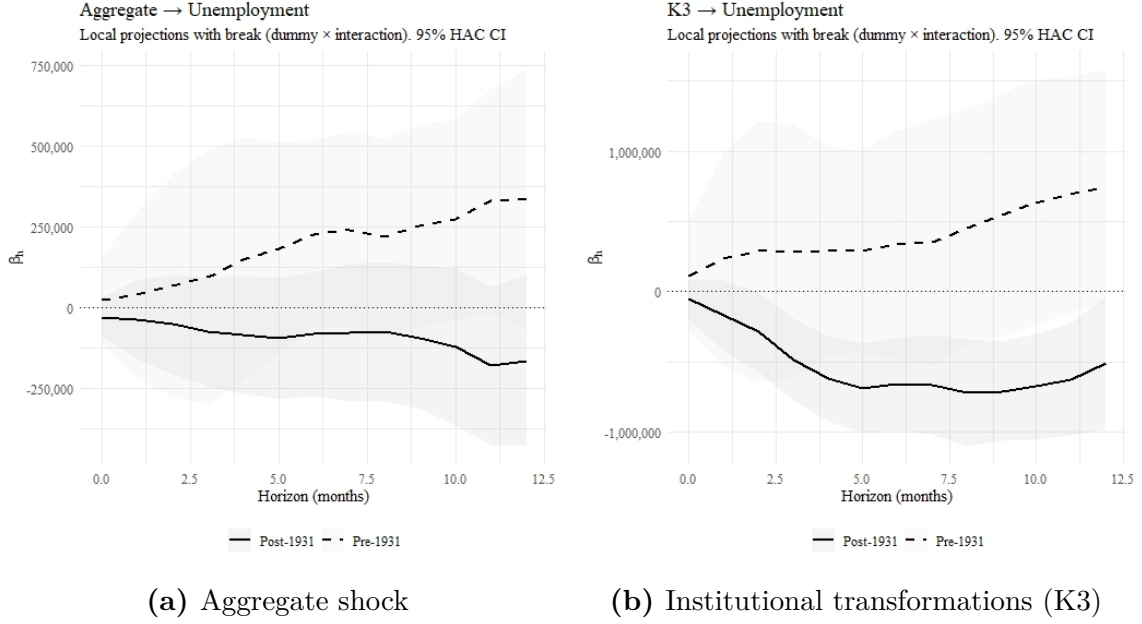


Figure 4: Impulse responses of unemployment. Pre-1931 effects are small; post-1931 K3 triggers rapid and persistent declines.

The unemployment responses speak directly to Hypothesis H2, which expects that political interventions—once embedded in the institutional structure—should translate into more expansionary macroeconomic policies and thereby reduce unemployment. Figure 4 illustrates this clearly: prior to 1931, unemployment is essentially unresponsive to political shocks, whereas after the crisis both the aggregate index and, more sharply, K3 shocks generate persistent employment gains.

Before 1931, the gold-standard regime and the institutional firewall around the Reichsbank insulated the labour market from political influence. Attempts by the Brüning government in 1930–31 to stimulate employment through monetary easing, such as the February 1931 request for a discount-rate reduction or proposals to extend credit to industry, did not gain traction (Appendix 9.4). Defending the external parity imposed a binding constraint: any monetary accommodation risked further gold losses, and the impulse responses reflect this insulation with small and imprecise pre-crisis coefficients.

After 1931, the transmission mechanism changed fundamentally. Once convertibility constraints were suspended, political authorities gained increasing leverage over the Reichsbank. Institutional erosion intensified after 1933 through several K3 events documented in Appendix 9.4: the reinstatement of Hjalmar Schacht as Reichsbankpräsident in March 1933, the Gleichschaltung and effective sidelining of the Generalrat in 1934, and the introduction of the Mefo-bill system from late 1934 onwards. Each of these reforms weakened the Bank’s autonomy and created a durable channel through which political priorities—public works, rearmament, and state-led industrial expansion—could be financed.

Figure 4b shows that these institutional transformations translated into sharp and highly persistent reductions in unemployment. Significant effects emerge after roughly three months and continue to accumulate for almost a full year, with magnitudes that are economically meaningful in light of the rapid labour mobilisation of the mid-1930s. The timing aligns closely with the escalation of *Arbeitsbeschaffungsmaßnahmen* in 1933 and 1934, the rollout of large construction projects, and the increasing weight of rearmament industries. Full coefficient estimates for the aggregate and K1–K3 specifications are reported in Appendix 9.1, Table 1.

The aggregate index displays a similar but more muted pattern. Post-1931 coefficients drift into negative territory across several horizons, though with smaller magnitudes and lower precision than the K3 results. This attenuation is consistent with the construction of the index: discursive pressure (K1) and binding directives (K2) generated only short-lived effects, whereas the major institutional ruptures captured by K3 were responsible for the sustained shifts in labour-market outcomes. The aggregate response therefore reflects the mixture of comparatively weak K1/K2 signals with the more consequential K3 events.

All in all, the results strongly support Hypothesis H2. Political interventions had no measurable effect on unemployment as long as the institutional and external constraints of the gold-standard regime remained intact. After 1931—and especially after the institutional restructurings of 1933–34—political dominance over the Reichsbank enabled a sustained expansion of credit and state-directed investment, producing pronounced and persistent employment gains. These findings underscore the central role of institutional change in establishing a durable transmission channel from political control to real economic activity, even though other factors such as global recovery and broader fiscal and industrial policies also contributed to the observed outcomes.

5.1.3 Industrial Production

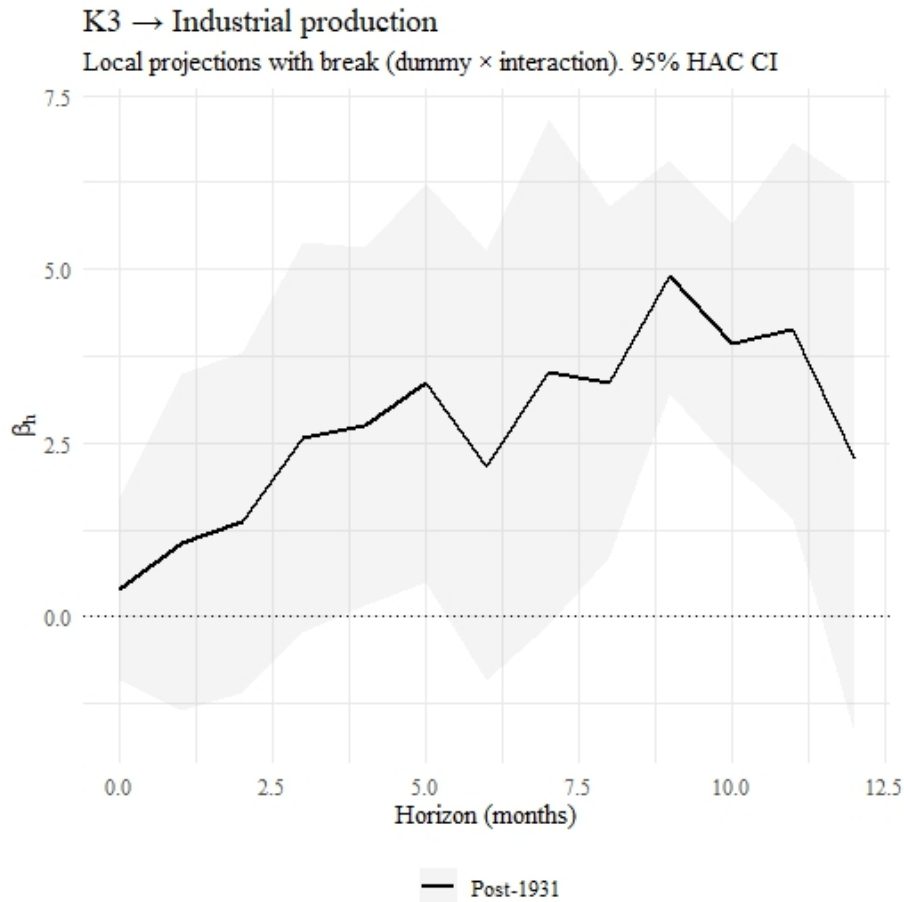


Figure 5: Impulse response of industrial production to K3 (1932–1936). Post-1931 effects peak around month 8–9.

The industrial production results provide a complementary perspective on Hypothesis H2. Whereas unemployment captures the labour-market side of the expansion, industrial output reflects the supply response to politically induced credit creation and large-scale state intervention. Figure 5 shows that, in the post-1931 period, K3 shocks generate a clear and economically meaningful expansion in industrial production, with effects building gradually and peaking around months eight to nine.

This timing matches the institutional and policy developments documented in Appendix 9.4. Several major K3 events between 1933 and 1935 fundamentally reshaped the Reichsbank’s role in financing economic activity: Schacht’s return as Reichsbankpräsident in March 1933; the erosion of the Generalrat’s oversight functions in 1934; and, crucially, the introduction and rapid expansion of the Mefo-bill system from late 1934 onward. In the event chronology (Appendix 9.4, Table 8), these changes cluster precisely in the years 1933–34, when Mefo GmbH is founded, the Banking Act is amended and capital-market steering tightened, and state banks and giro centres are brought under Reich control. These steps enabled the government to channel large amounts of off-budget credit toward rearmament, public works, and

heavy industry. In practice, this meant that political interventions, once institutionalised, could stimulate output not merely through temporary liquidity support, but through sustained, large-scale credit mechanisms that bypassed previous constraints.

The delayed nature of the response is also economically intuitive. State-directed investment programmes introduced in 1933 and 1934, such as Autobahn construction, housing initiatives, and later the rearmament drive, required time to mobilise labour, materials, and industrial capacity. The impulse responses reflect this adjustment process: coefficients become significant only after three to four months, strengthen in mid-horizons, and peak near the one-year mark. The magnitudes are substantial: Appendix 9.1, Table 3 shows increases of roughly 3–5 index points between horizons five and eleven, with the largest effects (≈ 5) occurring exactly when Mefo-bill issuance accelerated and military procurement expanded at unprecedented speed.

These dynamics also align with the broader macroeconomic strategy of the regime. After 1933, the government explicitly linked monetary and industrial policy through instruments such as compulsory acceptance of government bills, preferential credit for armaments firms, and targeted interventions by sectoral agencies like the Reichswerke. Once the Reichsbank lost its effective independence, the central bank became the linchpin of this system, ensuring liquidity for politically prioritised industries. The impulse responses therefore capture not merely a statistical association but the emergence of a politically driven credit–output nexus.

Finally, the attenuation of the effect after twelve months suggests that the expansions associated with K3 shocks were not permanent but medium-run impulses tied to specific institutional ruptures. This is consistent with the episodic nature of Nazi industrial mobilisation: each major institutional step (e.g., Mefo-bill reform, reorganisation of the Generalrat) triggered a discrete acceleration, but subsequent growth required new interventions.

Overall, the industrial production results reinforce Hypothesis H2: political interventions mattered for real activity primarily once institutional subordination created a persistent transmission mechanism linking political priorities to credit allocation. The delayed but powerful expansionary effects of K3 shocks are consistent with the historical processes through which the Reichsbank became an instrument of state-led industrial mobilisation during the mid-1930s.

5.1.4 Exchange Rate

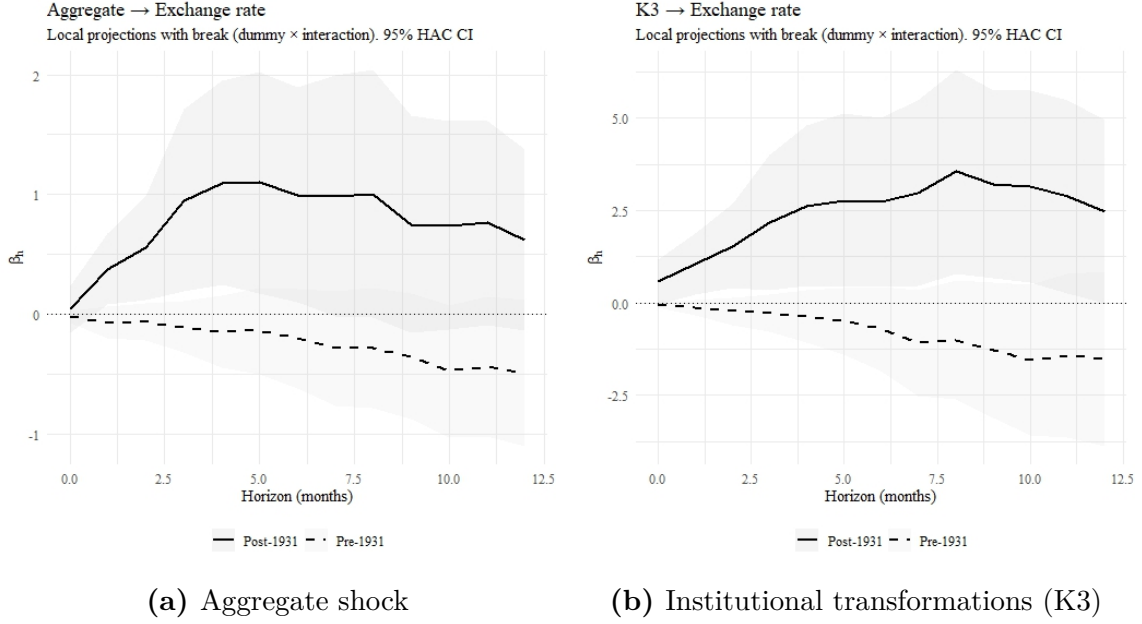


Figure 6: Exchange rate responses (U.S. cents per Reichsmark).

The exchange-rate responses highlight how the breakdown of the gold-standard framework altered the external transmission of political interventions. Before 1931, both the Reichsmark and the U.S. dollar were tied to gold, and the cross-rate was effectively pinned by the common parity. Consistent with this, the impulse responses in Figure 6 are essentially flat in the pre-crisis period: as long as gold convertibility and parity defence were binding, domestic political pressure had little scope to affect the external value of the currency.

This insulation weakened in stages. In July 1931, Germany suspended effective gold convertibility and introduced emergency foreign-exchange controls, while formally maintaining the pre-crisis parity. From that point onwards, the effective value of the Reichsmark depended increasingly on administrative rationing of foreign exchange and the emergence of parallel-market pressures rather than on gold flows. Appendix 9.1, Table 4 shows that in this post-1931 environment aggregate political shocks raise the value of the Reichsmark in U.S. cents at medium horizons. Since the exchange rate is measured in U.S. cents per Reichsmark, a positive coefficient corresponds to an *appreciation* of the Reichsmark rather than a depreciation, indicating that political interventions increasingly shaped expectations about external balance and access to foreign currency.

Institutional transformations (K3) reinforce this pattern. The event chronology in Appendix 9.4 and Table 8 lists a cluster of K3 measures directly targeting the foreign-exchange regime: the emergency foreign-exchange controls of 1931, the repurposing of the Reichsbank as a confiscation and control authority under the 1933 “Treason against the Economy” law, and, finally, the transfer of foreign-exchange policy to the Four-Year Plan apparatus in 1936. In parallel, the international anchor shifted

when the United States abandoned the gold standard and devalued the dollar in 1933, so that the dollar–Reichsmark rate reflected a mix of foreign and domestic political choices rather than a fixed gold parity. In the impulse responses, these institutional changes are associated with positive and statistically significant post-1931 coefficients for K3 (Appendix 9.1, Table 4), implying that once foreign exchange was tightly rationed and channelled through politically controlled institutions, the external value of the currency responded systematically to domestic political shifts.

Overall, the exchange-rate results mirror the broader findings in this section. K1 and K2 interventions leave only limited traces in the exchange-rate data, whereas K3 events (those that reconfigured the foreign-exchange and capital-control regime) generate more persistent movements. The post-1931 pattern suggests that, once the gold-standard framework had been suspended and replaced by capital controls, bilateral clearing, and administered rates, political interventions regained the ability to affect the external value of the Reichsmark, even though that value was increasingly determined by policy rather than by open-market arbitrage.

5.2 Pre- and Post-1931 Dynamics

The preceding sections have documented that the impulse responses for unemployment, inflation, industrial production, and the exchange rate all display a marked shift around 1931. To formalise this pattern, the empirical strategy models the 1931 banking and currency crisis as a structural break by interacting each intervention series with a dummy that takes the value one from July 1931 onward. In this framework, β_{pre} captures the effect of political interventions under the pre-crisis regime, γ measures how this effect changes after 1931, and $\beta_{\text{post}} = \beta_{\text{pre}} + \gamma$ represents the total post-crisis response. The interaction term thus provides a direct test of whether the erosion of Reichsbank autonomy altered the transmission of political interventions.

Across variables, the interaction estimates confirm the patterns observed in the impulse responses. For unemployment, β_{pre} remains close to zero and insignificant, while γ is large and negative for $K3$ shocks. At horizon $h = 5$, the row for $K3$ in Appendix 9.1, Table 1 reports $\gamma \approx -9.75 \times 10^5$ ($p \approx 0.022$), implying a substantial additional decline in unemployment relative to the pre-crisis regime. As a result, β_{post} is negative and significant over several horizons. This pattern is consistent with the historical evidence discussed above: political pressure had little traction under the gold standard, but once institutional constraints weakened, interventions linked to structural change translated into sizeable labour-market effects.

For inflation, the interaction terms yield a more differentiated picture. $K2$ directives yield negative β_{pre} values at the impact horizon (-0.76 at $h = 0$, $p < 0.01$), which are offset by a positive and significant γ (Appendix 9.1, Table 2). The resulting β_{post} is small and typically insignificant, suggesting that politically motivated credit measures affected prices only once the institutional environment became more permissive. $K3$ shocks similarly exhibit positive γ coefficients at several horizons, aligning with the earlier finding that institutional transformation relaxed the pre-crisis commitment to price stability and allowed monetary accommodation to register in inflation dynamics.

Industrial production responds mainly in the post-crisis period. Although pre-1931 estimates are unavailable due to data limitations, the post-crisis coefficients for $K3$ shocks in Appendix 9.1, Table 3 reveal clear and statistically significant output gains, peaking around 5 percent above baseline at horizon 9. The interaction terms therefore capture the emergence of an expansionary policy channel (visible in the impulse responses) that did not exist under the pre-crisis regime.

The exchange rate provides the sharpest contrast. Before 1931, β_{pre} values are close to zero across horizons, consistent with the fixed-parity constraint under the gold standard. After the suspension of convertibility in July 1931 and the progressive introduction of foreign-exchange controls, γ becomes strongly positive. For aggregate shocks, Appendix 9.1, Table 4 reports $\gamma \approx 1.25$ at horizon 4 ($p = 0.014$), while for $K3$ shocks, $\gamma > 4$ at horizon 7 ($p = 0.013$). Because the exchange rate is measured in U.S. cents per Reichsmark, positive γ coefficients indicate an appreciation of the Reichsmark. The post-1931 regime therefore allowed political interventions to influence the external value of the currency, moving it away from a parity-bound price towards an administratively managed exchange-rate system sensitive to domestic

political developments.

Beyond the quantitative evidence, the interaction estimates also clarify why 1931 constitutes the relevant structural break for Hypotheses H3 and H4. Before the crisis, the Reichsbank operated within an institutional framework that combined statutory independence, a firm commitment to external convertibility, and a political consensus that the defence of parity had priority over domestic stabilisation. These elements did not simply limit the scope for monetary accommodation. They insulated macroeconomic outcomes from political influence because they anchored expectations and restricted the discretionary use of central bank instruments. Under these conditions it is unsurprising that β_{pre} remains small across variables.

After July 1931 this environment changed in several fundamental respects. The suspension of gold convertibility removed the parity constraint, the banking crisis undermined confidence in the governance of the Reichsbank, and a sequence of political and organisational reforms after 1933 gradually shifted effective control over monetary policy toward the executive. These developments created exactly the type of institutional setting described in H3 and H4: a setting in which political decisions could influence liquidity provision, credit allocation, and external payments, and could therefore affect unemployment, prices, output, and the exchange rate. The estimated γ coefficients trace this change closely.

In this sense the interaction results do not simply capture a statistical break. They reflect the underlying economic history of the early 1930s. The loss of monetary autonomy, the removal of pre-crisis constraints, and the emergence of politically directed macroeconomic policy define the regime change that the empirical model is designed to capture.

6 Discussion

6.1 Positioning the Results within Theory and Literature

The interpretation of the results requires placing them within the literature on central bank independence (CBI) and the monetary history of interwar Germany. Research in political economy emphasises the trade-off between credibility and policy discretion: independent central banks tend to maintain lower inflation, whereas politically controlled central banks allow for a broader use of monetary instruments at the cost of weaker nominal anchors Alesina and Summers (1993), Barro and Gordon (1983), Cukierman (1992), Masciandaro and Romelli (2015), and Rogoff (1985). Cross-country evidence supports this relationship and shows that the institutional design of monetary policy affects both price developments and the scope for political intervention Bodea and Hicks (2015).

Historical experiences outside Europe follow similar patterns. In several Latin American countries, the weakening of CBI during the 1930s was associated with higher inflation and tighter financial regulation, while the restoration of independence often followed periods of persistent instability Jácome and Pienknagura (2022). Even in advanced economies, shifts in CBI since the 1970s have been closely linked to political cycles and macroeconomic shocks Masciandaro and Romelli (2015). This literature highlights that CBI evolves in response to broader institutional and economic conditions.

The German case examined in this thesis reflects these mechanisms within a different historical setting. Prior to 1931, the Reichsbank operated under the constraints of the Gold Standard. In terms of the monetary trilemma, Germany maintained a fixed exchange rate and largely open capital markets, which limited domestic monetary discretion. This framework is consistent with the empirical results: political interventions (K1–K3) before 1931 have no measurable effect on unemployment, inflation, industrial production, or the exchange rate. The finding is in line with research describing late Weimar economic policy as anchored in external commitment and fiscal restraint Eichengreen (1996), Klausinger (1997), and Temin (1989).

After 1931, the institutional environment changed. The suspension of gold convertibility relaxed the external constraint and allowed for discretionary credit and monetary measures Temin (1993). International evidence shows similar patterns: countries that left gold earlier, such as Britain, recorded earlier recoveries from the Depression Eichengreen and Sachs (1985). In Germany, this expanded policy space coincided with a gradual reduction of central bank independence, culminating in the institutional reforms of 1933 (K3). The empirical results show that political interventions after 1931 affect unemployment, industrial production, inflation, and the exchange rate. These outcomes correspond to theoretical expectations that reduced CBI increases the short-run impact of policy interventions while weakening monetary credibility Alesina and Summers (1993) and Bodea and Hicks (2015).

Comparative research on non-democratic regimes provides an additional perspective. Bodea et al. (2019) argue that governments may reduce CBI to expand control over credit allocation and employment. In the German case, the dismantling of in-

stitutional constraints, the politicisation of financial intermediaries Kopper (1998), and the shift of decision-making authority toward the executive Ritschl (2024) created a framework in which political interventions could influence macroeconomic outcomes more directly.

At the same time, the German experience differs from other cases where reduced CBI was followed by sustained or accelerating inflation. The regime relied on administrative controls, rationing, and coercive instruments that limited price adjustments despite monetary expansion. This suggests that the effects of political interventions depend not only on the institutional status of the central bank but also on the wider political and administrative environment in which monetary policy operates.

6.2 Interpretation of the Results

The empirical results of this study shed light on how institutional change shaped macroeconomic outcomes in interwar Germany. The clearest pattern is the improvement in labor market conditions and industrial activity after 1933. Part of this development reflects fiscal expansion and rearmament, but the findings indicate that the erosion of Reichsbank autonomy contributed to the transmission of political directives into monetary and credit conditions. With the abandonment of the Gold Standard and the reduction of central bank independence, policymakers gained greater scope to use monetary expansion and directed credit to reduce unemployment. This mechanism is consistent with theoretical arguments that link political control over monetary policy to short-run stimulus at the cost of weaker credibility Alesina and Summers (1993), Barro and Gordon (1983), and Rogoff (1985).

Inflation dynamics qualify this interpretation. Unlike other cases in which the loss of central bank independence led to persistent price instability, Germany did not experience pronounced inflation in the 1930s. The results show moderate increases, but these remained contained. This outcome can be explained by the institutional structure of the Nazi regime, which combined monetary expansion with administrative controls such as wage and price regulation, financial repression, and instruments like Mefo bills. In this environment, coercive regulation substituted for the credibility normally associated with CBI (Bodea & Hicks, 2015), limiting price adjustments despite an expansionary stance.

The exchange rate results fit into this broader pattern. In the dataset used here, the series records U.S. cents per Reichsmark; positive post-1931 coefficients thus indicate an appreciation of the Reichsmark. This reflects the institutional transformation of the external sector after July 1931. Once gold convertibility was suspended, the exchange rate ceased to function as a market price and became increasingly administered through capital and foreign-exchange controls, bilateral clearing arrangements, and rationing of hard currency. This development does not contradict the core insight of the Gold Standard literature: leaving gold relaxed external constraints and expanded policy discretion Eichengreen and Sachs (1985) and Temin (1993). Germany differed from Britain or the United States in that the authorities did not allow the Reichsmark to float. The appreciation observed in the data therefore signals tighter administrative management rather than external strength,

and it represents another channel through which reduced central bank independence affected macroeconomic outcomes.

The condition of the financial sector further shaped this transmission. The 1931 banking crisis left private banks dependent on state support and increased the capacity of the government and the Reichsbank to steer credit allocation Kopper (1998). This environment facilitated the implementation of political directives, as monetary and financial channels were less constrained by market discipline. Comparative evidence from the United States supports the broader mechanism: Jalil (2014) shows that Federal Reserve districts with a more interventionist stance mitigated banking distress during the Depression, whereas adherence to restrictive doctrines amplified failures. Although institutional contexts differ, both cases illustrate that the effectiveness of monetary interventions depends on the condition of financial intermediaries.

Viewed together, the results show that the decline of central bank independence after 1931 altered the transmission of monetary and fiscal policy in Germany. Comparative evidence points in a similar direction: Cobham et al. (2001) find that political overrides of central bank recommendations in the UK raised bond yield spreads, indicating credibility losses. The German interwar case illustrates the same underlying mechanism. The expansion of policy discretion allowed for improvements in employment and output once external and institutional constraints were removed; inflation remained contained through administrative controls; the exchange rate moved under political management rather than market forces; and the weakened banking sector increased the leverage of political authorities over credit provision. These findings align with research that interprets central bank independence as a variable shaped by political cycles and broader institutional conditions (Bodea et al., 2019; Masciandaro & Romelli, 2015).

6.3 Relevance for Historical and Economic Debates

From a historical perspective, the results of this thesis speak directly to the long-standing debate about the relative importance of monetary versus fiscal and structural factors in explaining the Nazi recovery. One prominent strand of historiography emphasizes fiscal stimulus, public works, and rearmament as the principal drivers of economic expansion after 1933, downplaying the role of monetary variables. Another perspective stresses that monetary policy, particularly the institutional transformation of the Reichsbank, created the conditions under which fiscal initiatives could be financed and transmitted effectively. The evidence presented here suggests that institutional change at the Reichsbank was not merely symbolic but had tangible macroeconomic consequences. The dismantling of central bank independence allowed fiscal measures to gain traction, enabled deficit spending to be monetized, and facilitated the allocation of credit to politically prioritized sectors. This interpretation aligns with the argument of Heine and Herr (2021) and complements the findings of Ritschl (2024), who document how the Reichsbank became integrated into the regime's apparatus of control.

The findings also contribute to the broader historical discussion of the Gold Stan-

dard’s legacy. Temin (1989) and Eichengreen (1996) have shown that adherence to gold imposed severe constraints on domestic policy, transmitting contractionary shocks across borders and exacerbating the Great Depression. In this respect, the German experience after 1931 parallels that of countries such as Britain and the United States, where leaving gold created greater monetary autonomy and facilitated recovery through exchange-rate adjustment and expansionary policy (Eichengreen & Sachs, 1985). Germany, however, diverged in an important way. Whereas Britain allowed its currency to depreciate in line with market pressures, Germany combined departure from gold with tight administrative management of the Reichsmark, which in practice meant that the officially recorded exchange rate appreciated in the data even though the currency was no longer traded freely. At the same time, Germany paired its increased policy space with the systematic subordination of the Reichsbank to political authority. The results suggest that it was this institutional combination—greater autonomy from external constraints and fewer internal checks on monetary authority—that amplified the impact of political interventions on employment and output.

A comparative perspective strengthens this interpretation. In Austria, monetary policy in the interwar period was similarly constrained by the Gold Standard until the early 1930s, with deflationary policies pursued under political instability (Kernbauer, 1991). But unlike Germany, Austria’s central bank did not undergo a comparable institutional subordination, and the recovery remained much weaker. In Latin America, the collapse of monetary orthodoxy in the 1930s led to extensive politicization of central banks, but usually with chronic inflation and exchange rate instability (Jácome & Pienknagura, 2022). The German case therefore illustrates how expansionary policy could occur without high inflation when administrative controls substituted for credibility. In Southern Europe, too, central banks faced political pressures, but reforms were often less systematic. As Masciandaro and Romelli (2015) argue, the trajectory of central bank independence has historically exhibited cyclical patterns; the German case is a pronounced example of this dynamic during a major crisis.

The debate about the nature of the Nazi economic recovery has also centered on whether improvements in employment and production primarily reflected coercion and militarization or genuine macroeconomic stabilization. The moderate inflation observed alongside rapid output gains suggests that monetary subordination contributed to stabilization without generating the inflationary dynamics familiar from the early 1920s. This is consistent with Kopper (1998), who emphasize the weakened banking sector after 1931, and connects with broader insights from Jalil (2014), who show that activist monetary interventions in the United States mitigated financial distress during the Depression. In Germany, however, weakened financial intermediaries and authoritarian political control meant that the gains from stabilization were closely tied to the regime’s broader objectives, including rearmament.

From the perspective of economic theory, the results underline the endogeneity of institutions: central banks reflect broader political equilibria. The shift from relative independence under the Gold Standard to full subordination after 1933 illustrates how institutional design shapes the transmission of monetary interventions. In line

with the framework of Bodea and Hicks (2015), the German case shows that in the absence of democratic checks, credibility was replaced by administrative enforcement, allowing for short-term stabilization without the inflationary consequences typically associated with politicized monetary policy. This complements the comparative evidence of Jácome and Pienknagura (2022), who find that in Latin America the loss of independence generally generated chronic inflation, underscoring the specific institutional context of Germany.

Finally, these historical lessons resonate with contemporary debates. Even if the institutional settings are not directly comparable, recent developments in countries such as Turkey and Hungary illustrate similar pressures on central banks, often justified by promises of short-term employment or growth. The German experience of the 1930s shows that while the erosion of central bank independence may produce immediate macroeconomic improvements, it carries long-term risks for price stability, credibility, and institutional resilience. The interwar German case therefore offers a cautionary perspective on the political uses of monetary institutions.

6.4 Limitations

Despite the robustness of the empirical findings, several limitations of the analysis need to be acknowledged in order to avoid overinterpretation. First, there are important data gaps. Industrial production data are only available for the period 1932–1936, which restricts the ability to trace long-run effects of institutional change and to separate short-term dynamics from structural transformations. Likewise, unemployment and price data from the interwar years are prone to measurement error, and the classification of political events into the index used in this study is based on manual coding. Although the event typology (K1–K3) captures the most significant institutional and political shifts, it remains a categorical classification that does not differentiate the intensity or duration of individual interventions. This limits the granularity of the results and may underestimate heterogeneity within categories.

Second, the empirical strategy relies on local projections to estimate dynamic responses. While this approach is increasingly used in applied macroeconomics to capture impulse responses with limited data (Carcel et al., 2017), it cannot provide structural identification of causal mechanisms. The results therefore should be interpreted as plausibly suggestive rather than as precise causal effects. Omitted variable bias is a potential concern, since other policy instruments, such as fiscal expansion or trade measures, could have coincided with monetary interventions and influenced the estimated dynamics.

Third, the analysis is limited to Germany in the interwar period and does not directly compare the effects of institutional change across countries. Although the discussion has highlighted parallels and contrasts with Austria (Kernbauer, 1991), Latin America (Jácome & Pienknagura, 2022), and other economies abandoning the Gold Standard (Eichengreen & Sachs, 1985), the absence of a systematic cross-country comparison means that the external validity of the findings remains limited. Future research could strengthen the comparative dimension by employing a consistent event classification across multiple cases.

Finally, the political and normative context cannot be ignored. The decline of unemployment and the recovery of industrial production after 1933 were achieved under the conditions of a dictatorship and in the service of militarization and repression. As Kopper (1998) and Brechtken (2024) emphasize, the integration of monetary and financial institutions into the Nazi regime was part of a broader process of authoritarian consolidation. The employment gains identified here should therefore not be interpreted as an economic “success” in a welfare-enhancing sense, but as part of a coercive political economy that prioritized regime stability and rearmament over social welfare. In this respect, the German case illustrates the dangers of interpreting short-term macroeconomic improvements outside of their political context.

6.5 Implications

Taken together, the results of this thesis underscore the decisive role of institutional arrangements in shaping the macroeconomic consequences of political interventions. Before 1931, under the constraints of the Gold Standard and relative autonomy of the Reichsbank, political interventions classified in this study had little measurable effect on output, employment, or prices. This aligns with the broader literature that highlights the deflationary orthodoxy of the Gold Standard (Eichengreen, 1996; Temin, 1989). After 1931, however, the institutional and monetary environment fundamentally changed. The abandonment of gold and the dismantling of central bank independence, culminating in the institutional overhaul of 1933 (K3), marked a structural break that allowed political directives to translate into substantial macroeconomic effects. Unemployment fell sharply, industrial production recovered, inflation rose only moderately, and the tightly managed exchange rate appreciated in the official data despite the loss of parity.

These findings support the set of hypotheses developed in Section 2.3, in particular the claim that institutional arrangements shape the transmission of political interventions to macroeconomic variables. They also illustrate the broader political economy logic that central banks are embedded within political equilibria and can be reshaped in times of crisis to serve regime objectives (Bodea et al., 2019; Masciandaro & Romelli, 2015). In Germany, the erosion of independence did not lead to chronic inflation, as in many Latin American cases (Jácome & Pienknagura, 2022), but instead produced short-term stabilization through coercion and repression. This highlights the specific institutional conditions of the German case and underscores the importance of considering political context alongside economic institutions.

The discussion thus contributes to both historical and theoretical debates. Historically, it reinforces the view that the Reichsbank’s subordination was an essential component of the Nazi recovery, complementing fiscal and rearmament policies. Theoretically, it confirms the expectation that central bank independence acts as a critical determinant of macroeconomic performance, while also illustrating how the loss of independence under authoritarian regimes can generate atypical outcomes. The broader lesson for contemporary debates is that while politicized monetary policy may yield immediate gains, it undermines credibility and long-term stability. This duality remains highly relevant today in contexts where political pressures on

central banks are on the rise.

In sum, the evidence presented here shows that the institutional status of central banks is not a peripheral detail, but a central variable in economic history. The German case of the early 1930s demonstrates how institutional change can alter the entire transmission mechanism of monetary policy, with profound implications for both economic outcomes and political trajectories. This discussion sets the stage for the concluding chapter of the thesis, where the broader contributions of the study and their implications for research and policy will be drawn together.

7 Conclusion

The analysis in this thesis shows that the institutional position of the Reichsbank was the central factor shaping the transmission of political interventions in inter-war Germany. Before 1931, under the constraints of the gold standard and with a meaningful degree of autonomy, political signals had little measurable effect on unemployment, industrial production, prices, or the exchange rate. Discursive pressure and even binding directives were largely neutralised by the external parity commitment and by institutional safeguards. The banking and currency crisis of July 1931 marked a break in this regime. Once convertibility was suspended and autonomy weakened, political decisions began to affect macroeconomic outcomes more directly. The Reichsbank shifted from a stability oriented institution to an instrument of state-directed credit and resource allocation.

The empirical results reflect this shift clearly and speak to the hypotheses developed in Chapter 2. K1 events, which capture discursive or rhetorical interventions, left no lasting footprint in any variable before or after the crisis. K2 events, which reflect binding directives and personnel changes, generated limited and mostly temporary reactions, visible mainly in short-run price effects after 1931. K3 events, which capture structural and institutional changes, produced the strongest and most persistent responses. After 1931 they are associated with substantial reductions in unemployment, sustained increases in industrial production, and moderate but persistent upward movements in prices. The hierarchy across event types confirms the expectation that only structural changes to institutional arrangements are powerful enough to alter the transmission mechanism of political interventions.

This pattern illustrates the tension between credibility and flexibility. Under the gold standard, credibility was maintained but at the cost of limited room for countercyclical policy during the Depression. After 1931, flexibility increased: governments could direct credit and shape liquidity conditions, but credibility weakened, administrative control over the currency expanded, and the central bank became subordinate to political authority. The results show how this trade-off operated in practice during the early 1930s.

The German case also makes clear that central bank independence is embedded in political structures rather than being a purely technical arrangement. Between 1933 and 1939 independence was dismantled to support rearmament, to channel credit to selected sectors, and to improve labour market conditions. These macroeconomic effects contributed to the consolidation of the regime. At the same time, inflation did not accelerate dramatically. The combination of directed credit, wage and price controls, financial repression, and special instruments such as Mefo bills contained visible inflationary pressure. The stability of prices in the mid-1930s was therefore not a market outcome but the result of coercive institutional arrangements.

A comparative perspective reinforces this interpretation. The results suggest that independence is a contingent institutional equilibrium that can shift in periods of political or economic stress. Democratic systems may employ independence to stabilise expectations across electoral cycles, although pressures still emerge in moments of

crisis or conflict. Authoritarian regimes often scale back independence when political priorities call for direct control over credit and monetary conditions. Contemporary examples such as Turkey demonstrate the inflationary risks associated with such shifts. Even in advanced economies, the financial crisis of 2008, the pandemic, and the shocks following the war in Ukraine have shown how rapidly the boundary between technical stabilisation and political intervention can move, albeit within democratic and multilateral frameworks.

The central conclusion is that central bank independence is neither permanent nor self-enforcing. The German case shows how quickly institutional constraints can erode when political priorities shift and external anchors collapse. The disruption of 1931 transformed political interventions from marginal signals into instruments that directly shaped unemployment, industrial activity, prices, and the exchange rate. Once the Reichsbank lost autonomy, the transmission of monetary policy fundamentally changed from credibility-oriented restraint to politically directed expansion. The broader implication is that institutional design can insulate economies from political influence in stable times, but such insulation may deteriorate rapidly in moments of crisis. The interwar experience demonstrates both the stabilizing potential of independent central banks and the considerable risks that arise when independence is sacrificed for short-term political objectives.

8 Bibliography and Data Sources

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Data Sources (Macroeconomic Variables)

Unemployment

Source: Statistisches Reichsamt. *X. Beschäftigung und Arbeitslosigkeit: 12. Die Entwicklung der Arbeitslosigkeit.* Statistisches Jahrbuch für das Deutsche Reich, 1938, p. 350. Berlin: Reichsdruckerei. PURL: https://resolver.sub.uni-goettingen.de/purl?514401303_1937.

Exchange Rate (RM/USD)

Source: Board of Governors of the Federal Reserve System. *Banking and monetary statistics, 1914–1941.* Washington, D.C.: U.S. Government Printing Office, 1943, p. 671. Available via FRASER, Federal Reserve Bank of St. Louis: <https://fraser.stlouisfed.org/title/banking-monetary-statistics-1914-1941-38>.

Inflation (Cost of Living Index)

Source: Statistisches Reichsamt. *VIII. Preise: 13. Reichsindexziffern für die Lebenserhaltungskosten.* Statistisches Jahrbuch für das Deutsche Reich, 1939, p. 331. Berlin: Reichsdruckerei. PURL: https://resolver.sub.uni-goettingen.de/purl?514401303_1938.

Industrial Production

Source: Institut für Konjunkturforschung. *Statistisches Handbuch der Weltwirtschaft.* Berlin: Verlag für Sozialpolitik, Wirtschaft und Statistik, 1937, p. 12.

Interest Rate (Official Discount Rate)

Source: National Bureau of Economic Research. *Official Bank Discount Rate for Germany [M13015DEM156NNBR].* In FRED, Federal Reserve Bank of St. Louis. Retrieved from <https://fred.stlouisfed.org/series/M13015DEM156NNBR>.

List of Figures

1	Macroeconomic overview (1928–1937)	18
2	Timeline of political interventions by category (K1–K3), 1929–1937 .	21
3	Impulse responses of inflation to K3 and aggregate shocks. Both show mild but more persistent post-1931 effects.	28
4	Impulse responses of unemployment. Pre-1931 effects are small; post- 1931 K3 triggers rapid and persistent declines.	30
5	Impulse response of industrial production to K3 (1932–1936). Post- 1931 effects peak around month 8–9.	32
6	Exchange rate responses (U.S. cents per Reichsmark).	34

9 Appendix

9.1 Tables

Table 1: Unemployment (Aggregate and Specifications K1–K3): pre / crisis dummy (γ) / post

Horizon	Spec	β_{pre}	p_{pre}	γ	p_{γ}	β_{post}	p_{post}
0	Aggregate	21531.970	0.751	−53447.580	0.482	−31915.610	0.305
1	Aggregate	39129.640	0.766	−77969.450	0.598	−38839.810	0.533
2	Aggregate	65444.870	0.710	−117438.150	0.547	−51993.280	0.507
3	Aggregate	93303.110	0.643	−168952.270	0.442	−75649.160	0.377
4	Aggregate	148340.130	0.442	−232885.450	0.278	−84545.320	0.368
5	Aggregate	183232.150	0.275	−278691.960	0.154	−95459.800	0.321
6	Aggregate	226423.980	0.131	−308038.040	0.093	−81614.070	0.406
7	Aggregate	240637.460	0.121	−318494.240	0.101	−77856.780	0.477
8	Aggregate	218419.230	0.163	−292278.030	0.144	−73858.810	0.505
9	Aggregate	251209.640	0.120	−345378.220	0.092	−94168.580	0.404
10	Aggregate	271257.560	0.090	−393338.700	0.073	−122081.150	0.330
11	Aggregate	329115.010	0.065	−509508.780	0.031	−180393.770	0.154
12	Aggregate	334097.770	0.106	−498691.200	0.067	−164593.430	0.226
0	K1	59965.480	0.507	−77229.630	0.460	−17264.150	0.722
1	K1	112390.120	0.527	−23715.760	0.901	88674.350	0.288
2	K1	214594.550	0.391	−32779.030	0.904	181815.520	0.193
3	K1	320424.070	0.305	−13709.350	0.968	306714.730	0.124
4	K1	454906.320	0.172	−111757.460	0.759	343148.870	0.129
5	K1	507576.640	0.105	−123937.980	0.732	383638.670	0.118
6	K1	572458.850	0.036	−148028.650	0.652	424430.190	0.090
7	K1	582679.010	0.019	−119729.090	0.706	462949.920	0.058
8	K1	465861.350	0.069	3842.112	0.991	469703.460	0.055
9	K1	479878.890	0.076	−69767.830	0.835	410111.060	0.053
10	K1	452074.800	0.102	−138076.950	0.691	313997.850	0.081
11	K1	571876.990	0.041	−436768.050	0.234	135108.940	0.443
12	K1	590934.840	0.049	−520837.920	0.194	70096.920	0.725
0	K2	−174590.800	0.038	135520.200	0.222	−39070.664	0.522
1	K2	−323292.800	0.095	286580.200	0.255	−36712.579	0.775
2	K2	−387907.100	0.178	347352.700	0.321	−40554.411	0.799
3	K2	−338677.500	0.326	300252.900	0.468	−38424.587	0.833
4	K2	−100245.400	0.789	127435.100	0.786	27189.658	0.899
5	K2	159685.200	0.685	−143865.700	0.780	15819.483	0.948
6	K2	404706.400	0.310	−409462.900	0.426	−4756.419	0.984
7	K2	499468.900	0.210	−526448.100	0.280	−26979.143	0.907
8	K2	473134.000	0.254	−520948.200	0.274	−47814.200	0.827
9	K2	594561.300	0.154	−678586.600	0.143	−84025.272	0.717
10	K2	702471.600	0.106	−833345.900	0.105	−130874.343	0.618
11	K2	713614.400	0.094	−922624.700	0.080	−209010.364	0.446
12	K2	525252.800	0.230	−700911.200	0.210	−175658.326	0.533
0	K3	107497.100	0.597	−161510.200	0.467	−54013.140	0.463
1	K3	231425.100	0.550	−402295.200	0.337	−170870.170	0.185
2	K3	287130.700	0.546	−576555.400	0.258	−289424.680	0.051
3	K3	285470.900	0.538	−772394.400	0.125	−486923.480	0.001

Horizon	Spec	β_{pre}	p_{pre}	γ	p_{γ}	β_{post}	p_{post}
4	K3	287978.400	0.447	−906848.000	0.035	−618869.600	0.000
5	K3	286627.900	0.437	−974694.800	0.022	−688066.890	0.000
6	K3	332342.600	0.426	−994312.600	0.033	−661970.030	0.000
7	K3	351717.900	0.435	−1014602.300	0.041	−662884.390	0.000
8	K3	453474.300	0.295	−1174450.200	0.018	−720975.840	0.000
9	K3	545925.600	0.217	−1257003.900	0.012	−711078.260	0.000
10	K3	634868.700	0.158	−1311318.200	0.012	−676449.580	0.001
11	K3	691481.400	0.110	−1316826.800	0.011	−625345.340	0.003
12	K3	749660.700	0.080	−1263995.000	0.021	−514334.270	0.036

Table 2: Inflation (Aggregate and Specifications K1–K3): pre / crisis dummy (γ) / post

Horizon	Spec	β_{pre}	p_{pre}	γ	p_{γ}	β_{post}	p_{post}
0	Aggregate	−0.187	0.217	0.186	0.297	−0.001	0.986
1	Aggregate	−0.238	0.033	0.438	0.011	0.200	0.092
2	Aggregate	−0.208	0.209	0.311	0.149	0.103	0.436
3	Aggregate	0.063	0.726	−0.265	0.273	−0.201	0.285
4	Aggregate	0.339	0.040	−0.390	0.035	−0.051	0.544
5	Aggregate	−0.047	0.677	0.088	0.505	0.041	0.605
6	Aggregate	−0.204	0.065	0.207	0.167	0.003	0.980
7	Aggregate	−0.390	0.203	0.425	0.174	0.036	0.652
8	Aggregate	−0.284	0.033	0.387	0.007	0.103	0.014
9	Aggregate	−0.081	0.698	0.055	0.801	−0.026	0.696
10	Aggregate	−0.061	0.657	−0.050	0.731	−0.111	0.075
11	Aggregate	−0.084	0.412	0.000	0.998	−0.084	0.307
12	Aggregate	0.047	0.662	−0.041	0.742	0.006	0.875
0	K1	0.105	0.831	0.147	0.789	0.252	0.308
1	K1	−0.153	0.649	0.492	0.271	0.339	0.254
2	K1	−0.288	0.539	0.140	0.801	−0.147	0.654
3	K1	−0.102	0.788	−0.358	0.401	−0.460	0.208
4	K1	0.279	0.500	−0.566	0.245	−0.287	0.270
5	K1	−0.134	0.658	0.171	0.597	0.036	0.883
6	K1	−0.326	0.171	0.153	0.586	−0.173	0.417
7	K1	−1.044	0.209	0.962	0.195	−0.083	0.681
8	K1	−0.383	0.076	0.590	0.023	0.208	0.133
9	K1	−0.013	0.978	0.131	0.772	0.119	0.395
10	K1	−0.265	0.379	0.153	0.544	−0.112	0.430
11	K1	−0.243	0.422	0.215	0.513	−0.028	0.825
12	K1	0.379	0.099	−0.346	0.145	0.033	0.784
0	K2	−0.761	0.000	0.562	0.003	−0.199	0.109
1	K2	−0.611	0.004	0.789	0.009	0.179	0.361
2	K2	−0.138	0.554	0.446	0.173	0.308	0.115
3	K2	0.770	0.000	−1.064	0.017	−0.294	0.428
4	K2	1.505	0.000	−1.537	0.000	−0.032	0.820
5	K2	0.076	0.723	0.125	0.673	0.200	0.264
6	K2	−0.809	0.000	0.921	0.000	0.112	0.476
7	K2	−0.558	0.000	0.638	0.001	0.080	0.548
8	K2	−0.471	0.000	0.531	0.003	0.060	0.588
9	K2	−0.665	0.000	0.634	0.001	−0.031	0.801
10	K2	−0.137	0.352	0.066	0.730	−0.071	0.579
11	K2	−0.280	0.045	0.159	0.432	−0.121	0.464
12	K2	−0.153	0.451	0.089	0.723	−0.064	0.680
0	K3	−0.954	0.000	0.947	0.000	−0.006	0.954
1	K3	−0.817	0.000	1.123	0.000	0.306	0.079
2	K3	−0.646	0.064	0.851	0.041	0.204	0.391

Horizon	Spec	β_{pre}	p_{pre}	γ	p_{γ}	β_{post}	p_{post}
3	K3	0.050	0.920	-0.085	0.874	-0.035	0.859
4	K3	0.717	0.244	-0.575	0.368	0.142	0.274
5	K3	-0.043	0.873	-0.030	0.917	-0.073	0.785
6	K3	-0.256	0.591	0.318	0.538	0.061	0.698
7	K3	-0.265	0.268	0.354	0.252	0.089	0.615
8	K3	-0.764	0.003	0.888	0.003	0.124	0.279
9	K3	-0.042	0.932	-0.142	0.793	-0.184	0.229
10	K3	0.204	0.501	-0.473	0.185	-0.268	0.012
11	K3	0.053	0.877	-0.243	0.519	-0.190	0.101
12	K3	-0.342	0.068	0.431	0.079	0.089	0.552

Table 3: Industrial Production (Aggregate and Specifications K1–K3) — post-1931 sample only

Horizon	Spec	β_{post}	p_{post}
0	Aggregate	0.106	0.763
1	Aggregate	0.277	0.699
2	Aggregate	0.405	0.591
3	Aggregate	0.887	0.276
4	Aggregate	0.646	0.397
5	Aggregate	0.761	0.338
6	Aggregate	0.061	0.952
7	Aggregate	0.577	0.595
8	Aggregate	0.622	0.496
9	Aggregate	1.356	0.083
10	Aggregate	1.245	0.074
11	Aggregate	1.736	0.019
12	Aggregate	1.375	0.104
0	K1	0.300	0.744
1	K1	0.271	0.857
2	K1	0.130	0.941
3	K1	1.722	0.428
4	K1	0.816	0.645
5	K1	0.238	0.886
6	K1	−0.221	0.897
7	K1	−1.101	0.580
8	K1	−1.666	0.405
9	K1	−1.279	0.553
10	K1	1.315	0.475
11	K1	3.392	0.056
12	K1	2.880	0.149
0	K2	−0.114	0.852
1	K2	−0.086	0.932
2	K2	0.154	0.901
3	K2	0.008	0.996
4	K2	−0.661	0.702
5	K2	−0.538	0.754
6	K2	−1.341	0.418
7	K2	−0.058	0.976
8	K2	0.522	0.762
9	K2	1.379	0.383
10	K2	0.426	0.806
11	K2	0.926	0.693
12	K2	1.620	0.341
0	K3	0.389	0.563
1	K3	1.072	0.390
2	K3	1.363	0.281

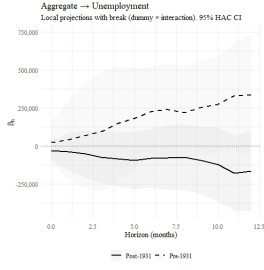
Horizon	Spec	β_{post}	p_{post}
3	K3	2.584	0.078
4	K3	2.740	0.044
5	K3	3.360	0.027
6	K3	2.170	0.177
7	K3	3.515	0.067
8	K3	3.379	0.013
9	K3	4.896	0.000
10	K3	3.921	0.000
11	K3	4.133	0.005
12	K3	2.262	0.269

Table 4: Exchange Rate (Aggregate and Specifications K1–K3): pre / crisis dummy (γ) / post

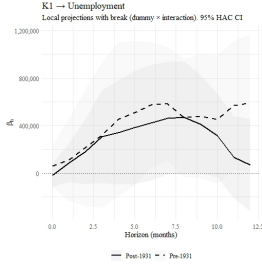
Horizon	Spec	β_{pre}	p_{pre}	γ	p_{γ}	β_{post}	p_{post}
0	Aggregate	−0.019	0.453	0.063	0.521	0.044	0.661
1	Aggregate	−0.070	0.304	0.448	0.009	0.378	0.014
2	Aggregate	−0.064	0.415	0.617	0.010	0.553	0.014
3	Aggregate	−0.104	0.343	1.057	0.016	0.953	0.015
4	Aggregate	−0.146	0.340	1.245	0.014	1.099	0.013
5	Aggregate	−0.138	0.451	1.238	0.028	1.099	0.022
6	Aggregate	−0.201	0.341	1.200	0.034	0.998	0.032
7	Aggregate	−0.282	0.249	1.270	0.045	0.988	0.058
8	Aggregate	−0.284	0.268	1.292	0.048	1.007	0.060
9	Aggregate	−0.352	0.191	1.103	0.058	0.751	0.108
10	Aggregate	−0.473	0.096	1.215	0.035	0.742	0.098
11	Aggregate	−0.437	0.145	1.203	0.039	0.766	0.081
12	Aggregate	−0.489	0.120	1.111	0.041	0.622	0.109
0	K1	−0.031	0.605	−0.324	0.075	−0.355	0.046
1	K1	−0.143	0.400	−0.083	0.809	−0.225	0.449
2	K1	−0.064	0.753	0.032	0.949	−0.031	0.946
3	K1	−0.151	0.560	0.429	0.560	0.278	0.671
4	K1	−0.237	0.477	0.513	0.546	0.276	0.706
5	K1	−0.125	0.756	0.084	0.924	−0.041	0.952
6	K1	−0.177	0.703	−0.161	0.869	−0.338	0.656
7	K1	−0.211	0.685	−0.381	0.726	−0.592	0.486
8	K1	−0.244	0.665	−0.336	0.758	−0.580	0.474
9	K1	−0.297	0.618	−0.458	0.669	−0.756	0.327
10	K1	−0.505	0.437	−0.048	0.966	−0.553	0.448
11	K1	−0.424	0.501	0.151	0.901	−0.273	0.744
12	K1	−0.538	0.399	0.030	0.981	−0.508	0.546
0	K2	−0.021	0.592	0.032	0.878	0.011	0.957
1	K2	−0.041	0.528	0.741	0.025	0.701	0.028
2	K2	−0.093	0.484	0.813	0.117	0.720	0.145
3	K2	−0.135	0.487	1.455	0.097	1.320	0.101
4	K2	−0.161	0.573	1.621	0.105	1.460	0.102
5	K2	−0.222	0.563	1.868	0.091	1.646	0.082
6	K2	−0.381	0.452	1.990	0.073	1.609	0.068
7	K2	−0.482	0.446	2.069	0.090	1.587	0.084
8	K2	−0.540	0.475	1.965	0.139	1.426	0.141
9	K2	−0.633	0.472	1.554	0.213	0.921	0.244
10	K2	−0.807	0.417	1.537	0.246	0.730	0.365
11	K2	−0.901	0.410	1.638	0.248	0.737	0.395
12	K2	−0.921	0.433	1.644	0.219	0.723	0.282
0	K3	−0.045	0.315	0.618	0.049	0.572	0.067
1	K3	−0.136	0.198	1.192	0.010	1.056	0.013
2	K3	−0.226	0.235	1.763	0.007	1.537	0.010

Horizon	Spec	β_{pre}	p_{pre}	γ	p_{γ}	β_{post}	p_{post}
3	K3	-0.284	0.273	2.467	0.021	2.182	0.021
4	K3	-0.367	0.306	2.991	0.020	2.624	0.020
5	K3	-0.492	0.291	3.263	0.023	2.771	0.023
6	K3	-0.700	0.231	3.419	0.019	2.720	0.022
7	K3	-1.083	0.143	4.060	0.013	2.977	0.022
8	K3	-1.006	0.222	4.551	0.011	3.546	0.014
9	K3	-1.273	0.176	4.485	0.010	3.212	0.015
10	K3	-1.543	0.139	4.680	0.011	3.137	0.020
11	K3	-1.429	0.208	4.298	0.023	2.870	0.034
12	K3	-1.521	0.209	3.986	0.034	2.465	0.055

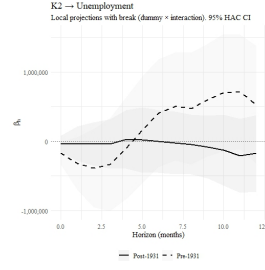
9.2 Graphs



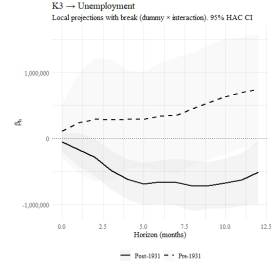
(a) UE Aggregate



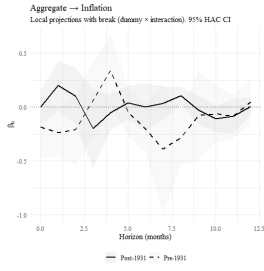
(b) UE K1



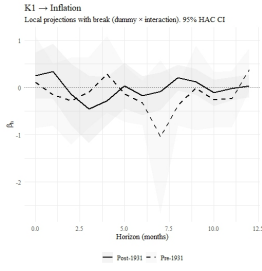
(c) UE K2



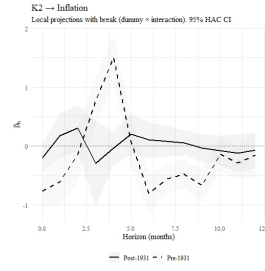
(d) UE K3



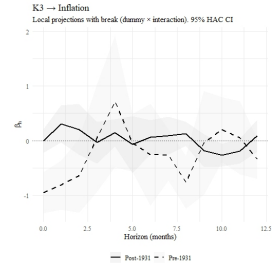
(e) Inf Aggregate



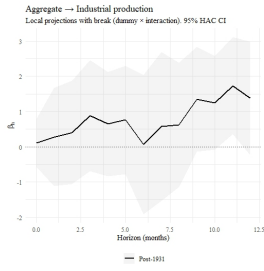
(f) Inf K1



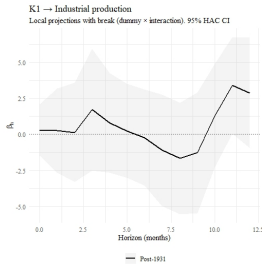
(g) Inf K2



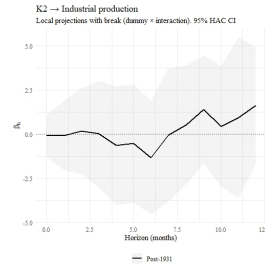
(h) Inf K3



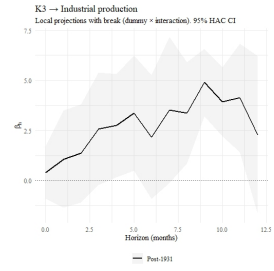
(i) IP Aggregate



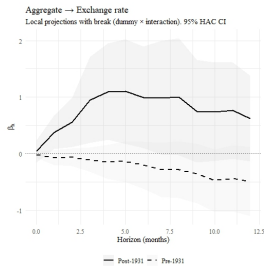
(j) IP K1



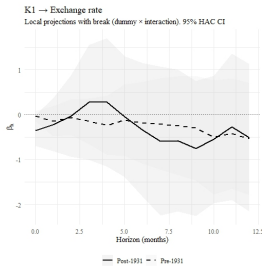
(k) IP K2



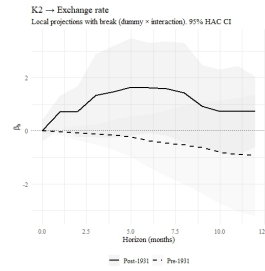
(l) IP K3



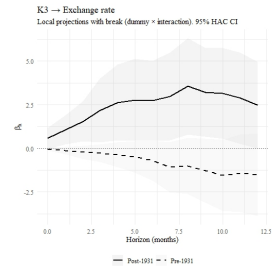
(m) ER Aggregate



(n) ER K1



(o) ER K2



(p) ER K3

9.3 Intervention Taxonomy (K1–K3)

K1 — Discursive or Institutional Pressure	Definition: Non-binding political or institutional pressure intended to affect monetary outcomes. Criteria (any): • Press commentary or public criticism of Reichsbank policy • Parliamentary/cabinet debates explicitly addressing the Reichsbank • Public speeches advocating monetary changes • Involvement of Reichsbank officials in political deliberations without legal mandate Boundary: If binding, classify as K2; if long-run institutional shift, K3. Typical effect: Indirect signalling; expectations/narratives.
K2 — Political Intervention (Personnel or Directives)	Definition: Binding actions shaping monetary policy (personnel or explicit orders). Criteria: • Appointment/removal/sidelining of key monetary officials • Legal or factual enforcement of policy (e.g., forced rediscounting) • Presidential decrees/ministerial orders leaving no discretion • Public statements by government leaders functioning as commands Boundary: If non-binding, K1; if structural/ideological change, K3. Typical effect: Direct impact on operations; reduced autonomy.
K3 — Institutional or Ideological Transformation	Definition: Structural/legal/ideological reorganization of the Reichsbank. Criteria: • Gleichschaltung laws (e.g., abolition of the Generalrat) • Reorganization placing functions under party control • Shadow structures (Mefo/ÖffA) bypassing bank decisions • Decrees subordinating leadership to the Führer (e.g., 1937 law) Boundary: If merely a directive/personnel matter, K2; otherwise K1. Typical effect: Long-run erosion of independence; political subordination.

9.4 Event Overview (Compressed from the Coded Spreadsheet)

9.4.1 K1: Discursive or Institutional Pressure

Table 6: K1 events (monthly flag = 1)

Month	Event	Source (short)
1929-05	Political uncertainty and capital outflows after the failure of the Hilferding loan; public debates on currency stability.	Ritschl (2024), p. 24.
1930-03	Political crisis over the Young Plan; public and political pressure on the Reichsbank leadership.	Ritschl (2024), p. 24.
1930-09	Pressure after the Reichstag election—loss of confidence; gold outflows after NSDAP gains.	Ritschl (2024), p. 25.
1931-06	Political debates on the Hoover Moratorium; mounting pressure on the Reichsbank in an escalating crisis.	Ritschl (2024), p. 25.
1931-07	Press and industry criticize the deflationary course; calls for expansionary monetary policy.	Klausinger (1997), p. 9.
1931-09	Friedrich List Conference debates active credit expansion; public debate.	Klausinger (1997), p. 3.
1931-10	Schacht attacks government policy at the “Harzburg Front.”	Ritschl (2024), p. 25.
1931-11	Demands in press and business for foreign-exchange protection and anti-inflation measures.	Klausinger (1997), p. 11.
1932-02	Wagemann Plan (opening monetary policy); heated public debate on gold coverage.	Klausinger (1997), p. 14.
1932-06	Follow-up statements and media reports on OeffA policy; demands addressed to the Reichsbank.	IfZ, <i>Arbeitsbeschaffung 1932</i> ; https://www.ifz-muenchen.de/heftarchiv/1969_3_3_koehler.pdf .
1932-08	Press calls for discount-rate cuts; criticism of restrictive policy.	<i>Dresdner Neueste Nachrichten</i> (1932); https://digital.slub-dresden.de/werkansicht/dlf/688898/1 .
1932-09	Debate on the Papen program (“drawer programs”) versus Reichsbank policy.	Ritschl (2024), p. 27.

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Month	Event	Source (short)
1933-03	Schacht's role in the cabinet—media portrayal as “the switch.”	Banken (2024), p. 68.
1933-04	Press reports on Schacht's influence; public perception of pressure.	Messersmith (1933); https://udspace.udel.edu/items/a04ce7e8-ebc2-4fc7-b294-46625452f58
1934-06	Cabinet power struggle over foreign exchange (Schmitt vs. Schacht).	Banken (2024), p. 70.
1936-03	Party resolution on economic management (indirect pressure to implement the Four-Year Plan).	IfZ, <i>Vierjahresplan 1936</i> .
1936-04	Conflict over agricultural imports between Schacht and Agriculture Minister Darré.	Banken (2024), p. 72.
1936-10	Institutionalized pressure through the Four-Year Plan.	Banken (2024), p. 72.

9.4.2 K2: Political Intervention (Personnel or Directives)

Table 7: K2 events (monthly flag = 1)

Month	Event	Source (short)
1930-03	Hans Luther replaces Hjalmar Schacht as Reichsbank President.	Ritschl (2024), p. 24.
1931-10	Emergency decree: credit ban for municipalities (Reich intervenes in credit allocation; Reichsbank involved in implementation).	Kopper (1998), p. 58.
1932-05	Work-creation bills coordinated with the Reichsbank.	Ritschl (2024), p. 26.
1933-03	Schacht officially reinstated as President.	Ritschl (2024), p. 28.
1933-04	Mefo bills: rediscounting mandated by directive.	Ritschl (2024), p. 26.
1933-06	Foreign-exchange compulsion under the “Treason against the Economy” law.	Banken (2024), p. 69.
1934-04	Law on trade in industrial raw materials (March 1934).	Banken (2024), p. 69.
1934-08	Schacht becomes Economics Minister as well as Bank President.	Banken (2024), p. 70.
1934-09	“New Plan”: legal requirement that credit allocation be conducted via foreign-exchange control.	Banken (2024), p. 70.
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Month	Event	Source (short)
1934-12	Bond-stock law (dividend freeze via Reichsbank/Golddiskontbank).	Kopper (1998), p. 56.
1935-02	Law reducing interest on public bonds.	Kopper (1998), p. 56.
1936-06	Banking Act amended in favor of Mefo bills.	Kopper (1998), p. 59.
1936-09	Further Banking Act change for Mefo bills.	Kopper (1998), p. 59.
1937-10	Schacht stripped of power by Göring (Four-Year Plan).	Kopper (1998), p. 53.

9.4.3 K3: Institutional or Ideological Transformation

Table 8: K3 events (monthly flag = 1)

Month	Event	Source (short)
1930-03	Young Plan and reorganization of the Reichsbank.	Ritschl (2024), p. 25.
1930-12	Acceptance banks as a shadow financial structure (treasury bills disguised as commercial bills; off-market state finance).	Ritschl (2024), p. 26.
1931-08	Foreign-exchange controls established by emergency decree.	Banken (2024), p. 66.
1933-03	Schacht granted special powers; institutional reordering.	Banken (2024), p. 68.
1933-04	Civil Service Law → ideological purge within the Reichsbank.	Ritschl (2024), p. 28.
1933-06	Law against “Treason of the Economy”: institutional repurposing of the Reichsbank as a state confiscation and control instrument.	Banken (2024), p. 69.
1933-07	Founding of Mefo GmbH.	Ritschl (2024), p. 27.
1933-10	Banking Act amendment.	RGBl. II 1933, p. 827.
1933-12	Strict capital-market steering as institutional reordering.	Kopper (1998), p. 53.
1934-02	Law on the Reconstruction of the Reich brings state banks and giro centers under Reich influence.	RGBl. I 1934, p. 75.

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Month	Event	Source (short)
1934-12	Expiration of private banks' note-issuing privilege.	Bundesbank, <i>Papiergeld im Deutschen Reich</i> ; https: //www.bundesbank. de/resource/blob/ 607868/ 195d1b540a2053d42fe9f2b735835115/ mL/ das-papiergeld-im-deutschen-reich-da pdf.
1936-06	Four-Year Plan takes over foreign-exchange policy.	Banken (2024), p. 74.
1936-07	Mefo expansion; the parallel structure displaces Reichsbank competence.	Kopper (1998), p. 59.
1937-02	Law on the Reichsbank and the Reichsbahn (10 Feb 1937): directorate directly subordinated to Hitler.	ZaoeRV (1937); https://www.zaoerv. de/07_1937/7_ 1937_1_b_457_2_ 461.pdf.
1937-10	Empowerment surge through the Four-Year Plan.	Kopper (1998), p. 54.