

Topic: The Borchardt hypothesis: A cliometric reassessment of Germany's debt and crisis during 1930-1932

1. What is the main question(s) raised in the paper (the issue)?

The main question raised in this paper is whether an alternative exchange rate policy could have mitigated the German recession from April 1930 to May 1932, when Heinrich Brüning was Reichskanzler of the Weimar Republic.

2. Why should we care about it (the significance)?

Because the exchange rate policy is a very important issue for a country, especially in crisis. In most situations, standard textbook treatments always suggest that a policy of leaving the eurozone and then reintroducing and floating the national currency allows a country to regain its monetary sovereignty and stimulate its economy. But they ignore the floating policy doesn't operate as anticipated in some particular situation.

3. What is the author's answer (the findings)?

The author found that depreciation would not operate as anticipated when foreign debt levels are high. Also, creditor countries can facilitate a debtor country's benefiting from the reintroduction of its national currency by adopting a more lenient debt policy. The author found these two factors - balance sheet effects and the role of international creditors - to be decisive in a country's choice of policy. So the floating policy not necessarily would have yielded better outcomes for interwar Germany.

4. How did the author get there (the strategy)?

The author used an open-economy dynamic model as his analytical framework, then formalized and examined the arguments against adopting the policy of devaluation