

The Real Economic Impact of Deflation: An Analysis of Swiss Balance Sheet Data from the Early 1920s

We examine the impact of deflation on Swiss firms and banks during the post-World War I period. Switzerland's deflation likely increased the real debt burden on companies, potentially harming indebted firms, as suggested by Debt-Deflation Theory. To explore the Debt-Deflation Channel within the Swiss context, we have compiled a novel dataset of over 600 balance sheets of Swiss firms from the years 1917 to 1924. As data compilation progresses, the dataset will further include corresponding stock prices from the Basel, Zurich, and Geneva stock exchanges and balance sheets of financial institutions.

After data preparation is complete, we will apply difference-in-differences analyses to examine the relationship between deflation-induced real debt increases and key financial metrics, such as cash holdings, investment in tangible assets, and stock prices, focusing on differences in firm indebtedness. We will also assess how deflation affected banks' asset values and lending practices.

Our findings aim to deepen understanding of how deflation influenced corporate and banking sectors, providing insights for managing deflationary periods and mitigating their adverse effects.