Millions, Billions, Trillions: Germany in the Era of Hyperinflation

SPIEGEL ONLINE
08/14/2009 04:55 PM

Germany in the Era of Hyperinflation

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During the hyperinflation in Germany of 1920s, the country's currency, the mark, went crazy. The government of the Weimar Republic may have been able to clear its debts, but it came at the cost of the citizens' savings. It's an era that is still part of the national psyche today.

Editor's note: During the global economic crisis, politicians and economists in the United States and Britain often criticized Berlin for its reluctance to initiate the kinds of expensive stimulus programs promoted by Washington. One of the most oft-cited reasons in Germany for racking up more debt than necessary to revive the economy was the fear of hyperinflation. From 1922-1923, hyperinflation plagued Germany and helped fuel the eventual rise of Adolf Hitler. The following article about this national trauma has been translated from a special issue of SPIEGEL on the history of money.

You could say journalist Eugeni Xammar had a stroke of reporter's luck when the Barcelona daily*La Veu de Catalunya*sent him to Berlin in the fall of 1922, a pivotal moment in the country's history. In the months that followed, it was the most exciting place in the world to report from. Germany's financial structures collapsed, and the mark began its descent into near worthlessness.

"The price of tram rides and beef, theater tickets and school, newspapers and haircuts, sugar and bacon, is going up every week," Xammar wrote in February 1923. "As a result no one knows how long their money will last, and people are living in constant fear, thinking of nothing but eating and drinking, buying and selling. There is only one topic on everyone's lips in Berlin: the dollar, the mark, and prices. ... Have you seen this? For heaven's sake, stop! I've just bought a six-week supply of sausages, ham, and cheese."

Nearly every day the journalist sent home new stories of the hyperinflation he was witnessing; reports of everyday insanity in a country whose currency was going crazy. In 1914, at the start of World War I, the dollar was worth 4.20 marks. From then on the German currency steadily declined, and in the fall of 1922 it went into freefall. By November 1923 the dollar was at 4.2 trillion marks. The nightmare came to an end shortly thereafter, and the dollar was back at 4.20 again, albeit against the new incarnation of the currency: the rentenmark.

Few people understood what had happened. Even today, three generations later, much of it sounds pretty incredible.

Take for example the family that sold its house to emigrate to America. On arrival at the port of Hamburg, they found that the money wasn't enough to pay for their crossing -- in fact, it didn't even pay for their tickets back home. Then there was the man who drank two cups of coffee at 5,000 marks each, only to be presented with a bill for 14,000. When he asked why this was he was told he should have ordered the coffees at the same time because the price had gone up in between. And then there's the story about the couple that took a few hundred million marks to the theater box office hoping to see a show, but discovered it wasn't nearly enough. Tickets were now a billion marks each.

At the height of the crisis, the inflation rate was in the tens of thousands -- per month, that is. And this in the era before the invention of the pocket calculator.

The World Coming off the Rails

Few could laugh at "the macabre joke of inflation," as writer Klaus Mann termed it. "What breathtaking fun it is to watch the world coming off the rails," he wrote in undisguised fascination. Germany was now witnessing "the complete depreciation of the only truly credible value in this godforsaken era: that of money."

His brother, the historian Golo Mann, was more concerned with classifying what was happening. "The effect of the devaluation of the German currency was like that of a second revolution, the first being the war and its immediate aftermath," he concluded. Mann said deep-seated faith was being destroyed and replaced by fear and cynicism. "What was there to trust, who could you rely on if such were even possible?" he asked.

It is true to say that nothing seemed safe anymore -- all semblance of order went out of the window, and with it faith in the Weimar Republic, in democracy, indeed in the future itself. After all, what was there to look forward to? Most people had seen their life savings wiped out while the state was able to shrug off its debts. "Inflation took the basic law-and-order principles of loyalty and trust to the extreme," says historian Martin Geyer.

The hyperinflation left behind a national trauma that can be felt to this day. The experiences of 1923 have etched themselves into the German psyche. Fear of inflation is widespread, and German economists feel more duty-bound than others to vouchsafe economic stability.

But did it all really have to go so far? Could the catastrophe have been averted? And if so, how?

The seeds of the problem were sown many years earlier. Indeed the ball was first set in motion by World War I, during which Germany spent an estimated 160 billion marks on its men and machinery; an unimaginably large sum. The only way the state could finance this was to acquire money by unconventional means.

On August 4, 1914, just three days after the Reich had declared war on Russia, parliament passed a series of currency acts that would have a fundamental impact on the country's money markets. The new legislation suspended the standard of backing cash with gold "until further notice," claiming that an "exceptional increase in unbacked paper notes" was an "economic necessity" in times of war. In other words, the Reich intended to pay for its war effort by printing more and more money.

Soaring National Debt

The sheer volume of banknotes increased dramatically. Whereas there were just 13 billion marks in circulation in 1913, this had jumped to 60 billion by the end of the war. Unfortunately this still wasn't enough to cover the state's expenditures. "As things stand, the only way to finance the cost of fighting the war is to shift the burden into the future through loans," economist Karl Helfferich said in 1915.

The Reich thus racked up huge debts with its own people, repeatedly issuing government bonds; a total of almost 100 billion marks in all. At first Germans bought these bonds almost unthinkingly, secure in the belief that victory was in sight. The national debt shot up from 5 to 156 billion marks.

"There is a point at which printing money affects purchasing power by causing inflation," warned socialist Eduard Bernstein in 1918. But his words and those of others went unheeded. The mountain of bank notes continued to grow, while the volume of goods gradually declined.

It was a classic constellation. Too much money and too few goods could lead to only one thing: Inflation. A government decree setting a maximum price for important consumables such as grain and coal didn't help either. Such artificial limits simply dammed up inflation, causing the liquidity glut to flood the market with even greater devastation when the economy collapsed after the end of the war.

So although the Weimar Republic was not bankrupt from the outset, its creditworthiness was restricted, and inflation saddled the fledgling state with a congenital defect that would have dire consequences.

Ironically, the monetary depreciation in its milder form initially helped stimulate the economy. With its comparatively low value against the dollar, sterling and the French franc, the cheap mark boosted German exports in the early days of the Weimar Republic. Industrial output increased by 20 percent within a year, unemployment fell to below 1 percent in 1922, and real wages rose significantly. The "lubricant of inflation," as economic historian Carl-Ludwig Holtfrerich put it, breathed new life into the private sector.

The post-war boom was all the more remarkable because the rest of the world economy was sinking into a deep recession. The United States and Britain stabilized their currencies even though it put up to a fifth of their respective working population out of work. The governments of the Weimar Republic took the opposite approach, buying themselves an economic upswing and full employment at the cost of catapulting the mark to dizzying heights. Although it would probably be unfair to suggest the politicians in Berlin deliberately drove inflation forward, they didn't exactly try very hard to rein it in. For a while the strategy proved convenient. But they were playing with fire, as soon became apparent.

War Reparations

The huge budget deficit and growing interest payments restricted the state's freedom of movement considerably. The enormous war reparations that Germany had been saddled with were especially hard on the young republic.

Even before the final figure had been agreed upon, German delegates at the 1919 Paris Peace Conference complained that the proposed reparations would "crush all creative urges, the will to work and all entrepreneurial spirit in Germany forever." However, the row over the size of the reparations only broke out in earnest later.

In 1921, the Allies set Germany's reparations at 132 billion goldmarks (pegged at the value of the mark in 1913). From then until 1932 an estimated 26 billion goldmarks was paid out in cash and goods, corresponding to an annual 10 percent of national income. In other words, although the burden was considerable, it was more-or-less affordable.

It was less the size of its reparations than continued uncertainty about them that destabilized the Weimar economy. The mood was especially vitriolic within the Reparations Commission, with the French --- keen to exact revenge for their military defeat in 1871 -- proving completely intransigent.

It therefore took just a relatively minor delay in the delivery of wood, coal and telegraph poles to escalate the conflict, and in January 1923 France marched 100,000 soldiers into Germany's Ruhr valley, seized control of the mines, and confiscated the coal. "This was a fatal blow to German industrial production," Holtfrerich says.

An entire region ground to a halt, and an important source of tax revenues dried up. Because the Ruhr valley was no longer permitted to deliver coal, Germany was forced to obtain its fuel elsewhere -- often from abroad at great cost, depleting its much-needed foreign currency reserves.

At the same time, millions of Germans were living in abject poverty. "Never in my life have I seen such swarms of starving people wandering about," wrote Franz Geyer, the future mayor of the Ruhr valley city of Bochum. Many young children suffered from deficiency diseases such as rickets, and at times tuberculosis reached almost epidemic proportions. In Mannheim, lung disease was reported in 43 families in one 220-household street alone.

Public opinion was unanimous as to the source of this misery, pinning the blame for all Germany's woes firmly on France and its uncompromising stance. As bitterness turned into open resistance, shopkeepers refused to serve French people, and Germans crossed the street to avoid meeting Frenchmen.

"The enemy is among us," wrote the *Hildesheimer Allgemeine* newspaper, appalled at the occupation of the Ruhr. "He has crept into the heart of the German economy to suck out our life-blood and destroy our very existence as a nation." A 10,000-mark note issued the year before was nicknamed the "vampire bill" because it depicted a man who appeared to have a bite-mark on his neck.

But the vertiginous descent of the mark began in 1922, before the French occupied the Ruhr -- and the drama took its course. Creeping inflation (i.e. currency devaluation of up to 50 percent a year) gave way to galloping inflation (more than 50 percent a year) and eventually became hyperinflation (more than 50 percent a month), and with it the state lost all financial control.

The depreciation of the mark can hardly be explained in terms of quantifiable causes. As so often in economics, expectations played a decisive role. The nerve-wracking wrangling over Germany's reparations had completely undermined faith in the country's economic prospects. Holtfrerich believes the hyperinflation could not have come about without a "collapse in faith in the currency" which in turn prompted a slump in "expectations about the future development of the internal and external value of the mark."

One clear sign of this lack of faith was the almost overnight retreat by foreign creditors from the German money market, selling their government bonds on a massive scale as they went.

By the time German Foreign Minister Walter Rathenau was assassinated by right-wing extremists on June 22, 1922, all hope of a return to economic stability had been lost. And yet the exchange rate didn't go into freefall until the early summer of the following year. The mark had now forfeited all three of the functions that characterized a currency: It served as neither a mathematical unit nor a form of payment -- let alone as a tool for preserving value. "The mark was already dead in the water in October 1922," observed historian Helmut Kerstingjohänner.

In December 1922, the dollar was still worth 2,000 marks. Within four months this had jumped to 20,000 marks, and by August 1923 it stood at more than a million. The Weimar Republic was "teetering on the edge of the abyss," as the then Interior Minister Wilhelm Sollmann put it. "Even the most courageous among us must get dizzy in light of the fragility of the bridge and the distance to the safety of the far shore," he said.

In addition to the state printing office, more than 130 companies were commissioned to print banknotes, and as long as paper was readily available a total of 1,783 presses churned out the nation's bills. Employees brought rucksacks to work on payday to stash their money - and then spent it immediately.

Payment in Bread and Sausages

At the Junkers plant in Dessau the company gave its workers the equivalent of the day's price of three-and-a-half loaves of bread at 9am every morning. Their wives, who were waiting at the factory gates, took the money and dashed off to the shops before the new dollar exchange rate was published at around midday.

Many doctors insisted on being paid not in cash but sausages, eggs, coal, and the like. Because of the constant increase in prices, shops stopped displaying them in their windows. And when the Prussian authorities forced them to do so nonetheless, it drove prices even higher because traders simply took prospective increases into account.

Even cremation became too expense for many because the price was pegged to that of coal. So the dead were buried in the conventional manner again. But here too there were opportunities to cut costs, and a 50 centimeter-high coffin dubbed the "nose-squasher" proved particularly popular.

People lived in a strange kind of tension. On the one hand there was the daily fight for survival, for food, and for heating fuel. "If we more-or-less manage to prevent the city of Cologne from collapsing completely, I shall get down on my knees and thank my Maker," the city's mayor, Konrad Adenauer, said.

Bizarrely enough, goods were no longer in short supply. There was simply no stable currency to buy them with. As the later Chancellor Hans Luther noted in 1923, Germany threatened to "starve with full barns."

'Drinking Away Grandma's House'

On the other hand it was also a time of phenomenal wastefulness. The people were gripped by the urge to panic-buy. They squandered their money, and lived from one day to the next. "We're drinking away Grandma's house" proclaimed one popular tune of the day.

The only objects of real value were tangible assets: diamonds and coins, antiques, pianos and art. The works of contemporary artists like Lyonel Feininger, Paul Klee, Max Pechstein and Karl Schmidt-Rottluff were in especially high demand. And if you had foreign currency, you lived like a king.

One senior mail inspector gained notoriety when it was revealed he had intercepted letters containing foreign banknotes: 1,717 dollars, 1,102 Swiss francs, and 114 French francs - enough to buy two houses for himself and a piano for a friend, with enough left over for an indulgence-like donation to the church.

In fact petty crime in general increased in leaps and bounds. Potato fields were plundered, bakeries raided, shop windows smashed. Prices weren't the only thing that went out of control. All values seemed to have been corrupted. Dance halls and strip bars opened up in the cities, and cocaine sales skyrocketed. People lived as if there were no tomorrow. Economist Joseph Schumpeter noted the "disorganizing effects of the collapsing currency on the national character, on morals, and all branches of cultural life."

Given that the mark had been discredited, many cities and even companies began creating their own currencies and printing emergency money. One firm in southern Germany issued a 50,000-mark bill featuring the clever aphorism "If coal is even more expensive, feel free to use me as fuel."

It was clear a radical monetary change was needed to halt the permanent depreciation and return to a more ordered state of affairs. In mid-November 1923 the government began issuing rentenmarks, claiming the new currency was backed by mortgages on industrial and agricultural land. This was of course fictitious. If push came to shove, no industrialist or farmer would have agreed to exchange his land for money. But after years of nerve-racking inflation the German people were so desperate for stability they were prepared to trust the new currency unquestioningly.

Sticking the Populace with the Tab

History may hail "the miracle of the rentenmark," but in reality it constituted an admission that the German Reich was bankrupt. And as always, it was the populace that picked up the tab.

The stupid ones were those who had nest eggs: the thrifty, holders of government bonds, but primarily the country's pensioners. In other words, those who received money without having to work for it, who lived on their pensions or the interest on their savings. Large sections of the middle classes saw themselves stripped of their assets, losing almost everything they had set aside for years. Banks, savings banks, and insurance companies suffered huge losses and were left with nothing but their paper money. As a result, they had to start the majority of their businesses from scratch in 1924.

By perverse contrast, the winners of the hyperinflation were those with massive debts; first and foremost the state, but also private individuals who had borrowed money to buy houses, construction land or farmland, and whose loans were slashed by the switch to the rentenmark.

Some industrialists made huge gains from the period of hyperinflation. Hugo Stinnes, whom *Time* magazine crowned "Germany's new Kaiser," built up an immense corporate empire comprising heavy industry, newspapers, ships and hotels -- all based on a mountain of debt. As late as the summer of 1922, Stinnes was recommending that people continue capitalizing on "the weapon of inflation." Indeed manufacturers and craftsmen in general profited from the crisis since they possessed plants and buildings -- that is, tangible assets that outlived the currency switch.

Fiscal Anarchy

Most farmers also did extremely well. "They had money to burn, and spent it willy-nilly," writer Lion Feuchtwanger recalled. Some bought themselves entire stables of racehorses, others expensive cars. "Farmer Greindlberger drove from the grimy village street of Englschalking to Munich in an elegant limousine complete with a liveried chauffeur, while he himself was dressed in a brown velvet jacket and a green chamois-tufted hat," Feuchtwanger wrote of the rural rich.

Never before had Germany witnessed such a fundamental redistribution of wealth, and many of the winners were those who had previously been wealthy.

Much should have been done differently between 1914 and 1924 to avoid this disaster. Firstly, Germany should have had more powerful institutions, namely governments backed by the people that placed greater emphasis on prudent budgeting and could have reached a better deal with the Allies. At the same time foreign countries -- especially France -- should have been more sensitive to deeply indebted Germany's needs and taken greater account of the predicament it was in. Most importantly, however, the Allies should have been clearer about the size of Germany's war reparations much sooner. In the absence of this, the Reich descended into a kind of fiscal anarchy.

Disillusioned, many Germans chose to withdraw from the bitter reality of their lives, and simply left the country. In 1923, the authorities counted three times as many emigrées as the year before. Some sought refuge in sects, others committed suicide. Millions more became radicalized.

It's no coincidence that Adolf Hitler's inexorable rise to power began in November 1923, the highpoint of Germany's inflation, when he organized the abortive Beer Hall Putsch in Munich.

Catalan Germany correspondent Eugeni Xammar witnessed the spectacle at close quarters, having recently conducted an interview with "the future ex-dictator of Germany." In this interview Hitler claimed the high cost of living was Germany's biggest problem, promising "We intend to make life cheaper." To this end he demanded that shops -- many of which were in Jewish hands -- be brought under state control. And he stressed, "We expect all kinds of miracles of these national stores."

The journalist from Barcelona wasn't shy about stating what he thought of his interviewee. Hitler was, Xammar wrote, "the stupidest person I have ever had the pleasure of meeting."

Tragically, most Germans were soon to have a very different opinion of him.

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