



AP European History

The German Hyper-Inflation

Name: _____
Section: _____
Score: ____/5

Directions: Read the following explanation about the German Hyper-Inflation following World War I and answer the thought questions below.

The German Hyper-Inflation 1923 (Excerpt)

Before World War I Germany was a prosperous country, with a gold-backed currency, expanding industry, and world leadership in optics, chemicals, and machinery. The German Mark, the British shilling, the French franc, and the Italian lira all had about equal value, and all were exchanged four or five to the dollar. That was in 1914. In 1923, at the most fevered moment of the German hyperinflation, the exchange rate between the dollar and the Mark was one trillion Marks to one dollar, and a wheelbarrow full of money would not even buy a newspaper. Most Germans were taken by surprise by the financial tornado.

"My father was a lawyer," says Walter Levy, an internationally known German-born oil consultant in New York, "and he had taken out an insurance policy in 1903, and every month he had made the payments faithfully. It was a 20-year policy, and when it came due, he cashed it in and bought a single loaf of bread." The Berlin publisher Leopold Ullstein wrote that an American visitor tipped their cook one dollar. The family convened, and it was decided that a trust fund should be set up in a Berlin bank with the cook as beneficiary, the bank to administer and invest the dollar.

In retrospect, you can trace the steps to hyperinflation, but some of the reasons remain cloudy. Germany abandoned the gold backing of its currency in 1914. The war was expected to be short, so it was financed by government borrowing, not by savings and taxation. In Germany prices doubled between 1914 and 1919.

After four disastrous years Germany had lost the war. Under the Treaty of Versailles it was forced to make a reparations payment in gold-backed Marks, and it was due to lose part of the production of the Ruhr and of the province of Upper Silesia. The Weimar Republic was politically fragile.

But the bourgeois habits were very strong. Ordinary citizens worked at their jobs, sent their children to school and worried about their grades, maneuvered for promotions and rejoiced when they got them, and generally expected things to get better. But the prices that had doubled from 1914 to 1919 doubled again during just five months in 1922. Milk went from 7 Marks per liter to 16; beer from 5.6 to 18. There were complaints about the high cost of living. Professors and civil servants complained of getting squeezed. Factory workers pressed for wage increases. An underground economy developed, aided by a desire to beat the tax collector.

On June 24, 1922, right-wing fanatics assassinated Walter Rathenau, the moderate, able foreign minister. Rathenau was a charismatic figure, and the idea that a popular, wealthy, and glamorous government minister could be shot in a law-abiding society shattered the faith of the Germans, who wanted to believe that things were going to be all right. Rathenau's state funeral was a national trauma. The nervous citizens of the Ruhr were already getting their money out of the currency and into real goods -- diamonds, works of art, safe real estate. Now ordinary Germans began to get out of Marks and into real goods.

Pianos, wrote the British historian Adam Fergusson, were bought even by unmusical families. Sellers held back because the Mark was worth less every day. As prices went up, the amounts of currency demanded were greater, and the German Central Bank responded to the demands. Yet the ruling authorities did not see anything wrong. A leading financial newspaper said that the amounts of money in circulation were not excessively high. Dr. Rudolf Havenstein, the president of the Reichsbank (equivalent to the Federal Reserve) told an economics professor that he needed a new suit but wasn't going to buy one until prices came down.

Why did the German government not act to halt the inflation? It was a shaky, fragile government, especially after the assassination. The vengeful French sent their army into the Ruhr to enforce their demands for reparations, and the Germans were powerless to resist. More than inflation, the Germans feared unemployment. In 1919 Communists had tried to take over, and severe unemployment might give the Communists another chance. The great German industrial combines -- Krupp, Thyssen, Farben, Stinnes -- condoned the inflation and survived it well. A cheaper Mark, they reasoned, would make German goods cheap and easy to export, and they needed the export earnings to buy raw materials abroad. Inflation kept everyone working.

So the printing presses ran, and once they began to run, they were hard to stop. The price increases began to be dizzying. Menus in cafes could not be revised quickly enough. A student at Freiburg University ordered a cup of coffee at a cafe. The price on the menu was 5,000 Marks. He had two cups. When the bill came, it was for 14,000 Marks. "If you want to save money," he was told, "and you want two cups of coffee, you should order them both at the same time."

The presses of the Reichsbank could not keep up though they ran through the night. Individual cities and states began to issue their own money. Dr. Havenstein, the president of the Reichsbank, did not get his new suit. A factory worker described payday, which was every day at 11:00 a.m.: "At 11:00 in the morning a siren sounded, and everybody gathered in the factory forecourt, where a five-ton lorry was drawn up loaded brimful with paper money. The chief cashier and his assistants climbed up on top. They read out names and just threw out bundles of notes. As soon as you had caught one you made a dash for the nearest shop and bought just anything that was going." Teachers, paid at 10:00 a.m., brought their money to the playground, where relatives took the bundles and hurried off with them. Banks closed at 11:00 a.m.; the harried clerks went on strike.

The flight from currency that had begun with the buying of diamonds, gold, country houses, and antiques now extended to minor and almost useless items -- bric-a-brac, soap, hairpins. The law-abiding country crumbled into petty thievery. Copper pipes and brass armatures weren't safe. Gasoline was siphoned from cars. People bought things they didn't need and used them to barter -- a pair of shoes for a shirt, some crockery for coffee. Berlin had a "witches' Sabbath" atmosphere. Prostitutes of both sexes roamed the streets. Cocaine was the fashionable drug. In the cabarets the newly rich and their foreign friends could dance and spend money. Other reports noted that not all the young people had a bad time. Their parents had taught them to work and save, and that was clearly wrong, so they could spend money, enjoy themselves, and flout the old.

The publisher Leopold Ullstein wrote: "People just didn't understand what was happening. All the economic theory they had been taught didn't provide for the phenomenon. There was a feeling of utter dependence on anonymous powers -- almost as a primitive people believed in magic -- that somebody must be in the know, and that this small group of 'somebodies' must be a conspiracy."

When the 1,000-billion Mark note came out, few bothered to collect the change when they spent it. By November 1923, with one dollar equal to one trillion Marks, the breakdown was complete. The currency had lost meaning.

What happened immediately afterward is as fascinating as the Great Inflation itself. The tornado of the Mark inflation was succeeded by the "miracle of the Rentenmark." A new president took over the Reichsbank, Horace Greeley Hjalmar Schacht, who came by his first two names because of his father's admiration for an editor of the New York Tribune. The Rentenmark was not Schacht's idea, but he executed it, and as the Reichsbank president, he got the credit for it. For decades afterward he was able to maintain a reputation for financial wizardry. He became the architect of the financial prosperity brought by the Nazi party.

Obviously, though the currency was worthless, Germany was still a rich country -- with mines, farms, factories, forests. The backing for the Rentenmark was mortgages on the land and bonds on the factories, but that backing was a fiction; the factories and land couldn't be turned into cash or used abroad. Nine zeros were struck from

the currency; that is, one Rentenmark was equal to one billion old Marks. The Germans wanted desperately to believe in the Rentenmark, and so they did. "I remember," said one Frau Barten of East Prussia, "the feeling of having just one Rentenmark to spend. I bought a small tin bread bin. Just to buy something that had a price tag for one Mark was so exciting."

All money is a matter of belief. Credit derives from Latin, *credere*, "to believe." Belief was there, the factories functioned, the farmers delivered their produce. The Central Bank kept the belief alive when it would not let even the government borrow further.

But although the country functioned again, the savings were never restored, nor were the values of hard work and decency that had accompanied the savings. There was a different temper in the country, a temper that Hitler would later exploit with diabolical talent. Thomas Mann wrote: "The market woman who without batting an eyelash demanded 100 million for an egg lost the capacity for surprise. And nothing that has happened since has been insane or cruel enough to surprise her."

With the currency went many of the lifetime plans of average citizens. It was the custom for the bride to bring some money to a marriage; many marriages were called off. Widows dependent on insurance found themselves destitute. People who had worked a lifetime found that their pensions would not buy one cup of coffee.

Pearl Buck, the American writer who became famous for her novels of China, was in Germany in 1923. She wrote later: "The cities were still there, the houses not yet bombed and in ruins, but the victims were millions of people. They had lost their fortunes, their savings; they were dazed and inflation-shocked and did not understand how it had happened to them and who the foe was who had defeated them. Yet they had lost their self-assurance, their feeling that they themselves could be the masters of their own lives if only they worked hard enough; and lost, too, were the old values of morals, of ethics, of decency."

The fledgling Nazi party, whose attempted coup had failed in 1923, won 32 seats legally in the next election. The right-wing Nationalist party won 106 seats, having promised 100 percent compensation to the victims of inflation and vengeance on the conspirators who had brought it.

Goodman, George. "The German Hyperinflation." Paper Money. PBS, 1981. Web. 09 Mar. 2014.

Thought Questions:

1. What were the social and political costs of the Hyper-Inflation? Support with evidence from the reading.
2. How was Germany able to restore the currency?
3. How could people like Hitler use this event to their advantage?