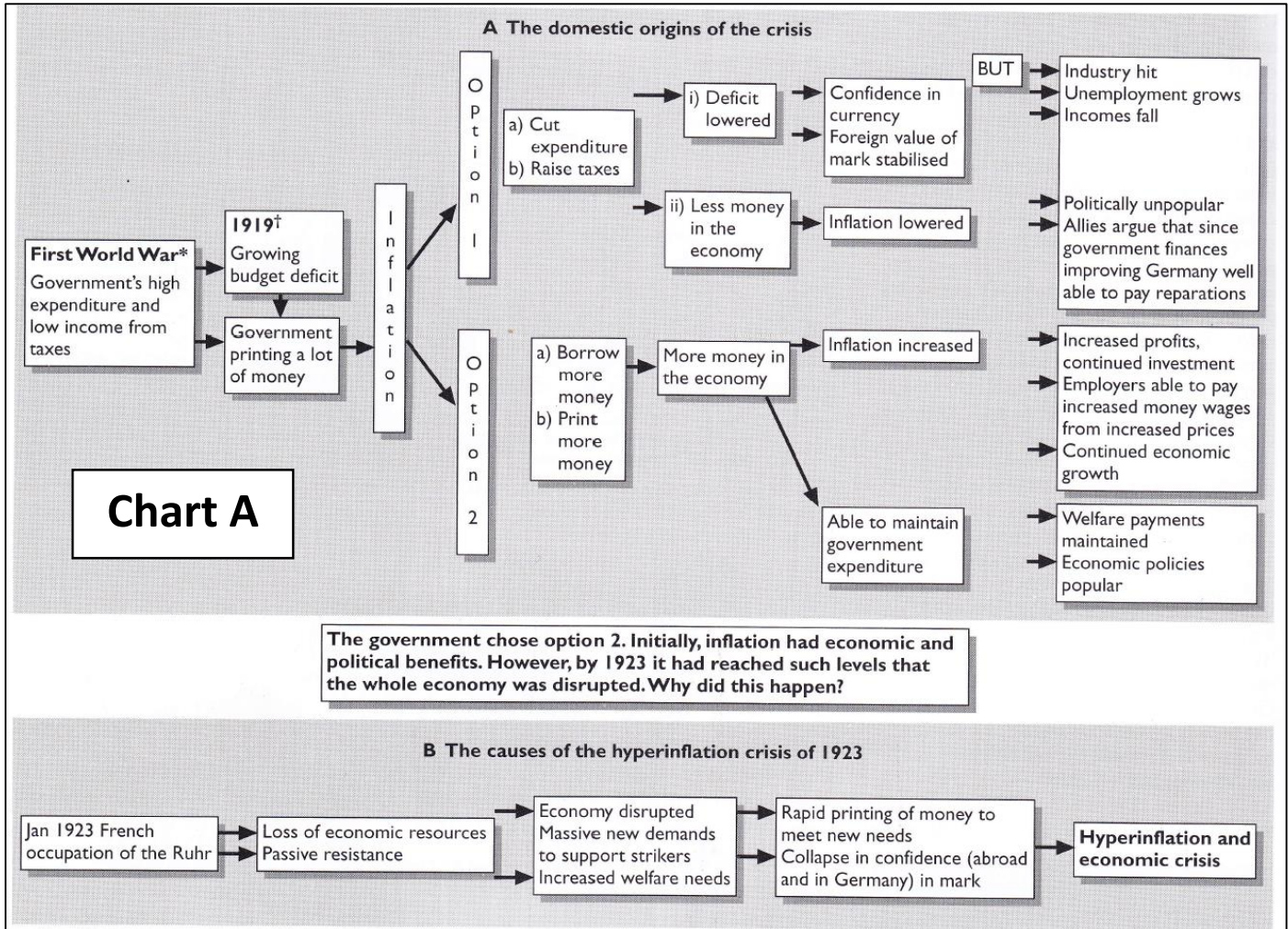


The Causes of Hyperinflation

Many people, both at the time and later, blamed the Allies for causing the hyperinflation crisis of 1923. Chart A, however, tries to show how the French occupation of the Ruhr was only one factor, exacerbating an inflationary problem that had its origins in the German government's actions in the First World War. Then, from 1919, Weimar governments faced a growing budget deficit. There were two broad policy options, the tough policies of Option 1 in Chart A or the more attractive, but inflationary, policies of Option 2. The insecure Weimar governments opted for the second approach. This contributed to the hyperinflation crisis of 1923.



Thus, though in 1923 most Germans blamed the economic crisis on the French and British demands for reparations, in many ways German governments were responsible. In some respects the government actually favoured inflation, since it reduced the real burden of its internal debt - interest and debt repayments on money borrowed from its citizens. Modest inflation can be beneficial to stimulate an economy, and some historians, for examples Holtfrerich, argue that the German government's economic policy in 1919-21 was economically rational as well as politically wise.

The government continued to print money. By 1923, 300 paper mills and 2,000 printing firms, including newspaper firms, were working 24-hour shifts to produce money. The government needed money to pay compensation to war victims and to those who had lost land under the Treaty of Versailles. It also needed to pay wages to civil servants, welfare benefits and subsidies and provide cheap credit to help industry readjust and maintain full employment. Another factor was the hope that continuing economic problems would reinforce the argument that Germany could not pay reparations and so influence Allied government to lower the level of their demands.

Foreign governments must also share some blame for the crisis. The French and Belgian occupation of the Ruhr in January 1923 came as the final blow to the faltering mark. 60,000 troops took control of all industries and railways in order to seize resources in lieu of payments that were overdue. However, it was not so much the invasion itself as the government's response to it that let loose hyperinflation. The government called for passive resistance, that no one should co-operate with the invaders. Civil servants, miners and others went on strike, financed by the government. In places resistance was far from passive and over 140 Germans were killed in clashes with French troops. Revenues to the government fell as Germany's industrial heartland was disrupted but expenditure on welfare increased rapidly, again fuelled by increased printing of money.

ACTIVITY

1. Match up the methods with the disadvantages of each method of funding the war:

Method	Disadvantage
a) raise taxes	d) causes inflation
b) borrow money	e) politically unpopular
c) print money	f) leaves government with a large debt

2. To what extent was hyperinflation caused by:
- The policies of the Second Reich during the war
 - The policies of Weimer governments
 - The French/Belgian occupation of the Ruhr
 - Reparations?
3. Look at Chart A. What reasons are there why the government did not try to fight inflation?
4. Choose four phrases from Sources 1-3 that sum up the crucial effects of the great inflation.

The end to Hyperinflation

The inflationary crisis, a long-time in the making, was actually solved very quickly. In November 1923 the new Chancellor, Stresemann, took decisive action to restore confidence in the currency. He appointed the expert financier Hjalmar Schacht to the Reichsbank. The old currency was replaced with a new one, the Rentenmark. One Rentenmark replaced 1,000 billion paper marks. The supply of new currency was strictly limited to 3,200 million Rentenmarks. The new currency was quickly accepted. In November, the weekly *Berliner Illustrierter Zeitung* cost 1 billion marks. In December, it cost 20 pfennings! The government showed its determination to prevent a recurrence of inflation by cutting expenditure, partly by dismissing many civil servants.

The effects of the inflationary crisis

The inflationary crisis had major economic, social, political and psychological effects, some of which left deep scars that help to explain the eventual collapse of the Republic. Most Germans suffered badly. Basic values were challenged. With millions desperate, it was easy for **demagogues** to offer simple explanations and solutions. Thus the crisis was variously blamed on Jewish finance, the Versailles Treaty, Weimar democracy and Socialists. The inflationary crisis also helped provoke increased unrest in 1923. However, despite the fact that millions of Germans lost their savings, radical right-wing groups did not win mass support.

The German state actually gained financially since it lost its debt. However, the Weimar Republic was weakened politically, since the great financial losses that people with savings suffered turned many of them against the democratic regime. Health too suffered, especially among the elderly, as a result of inflation-induced poverty, and this also was blamed on the Weimer government. The hyperinflation crisis thus inflicted wounds that in the long term contributed to Weimar's death.

SOURCE 1 - Mary Fulbrook, *Fontana History of Germany*, 1991, p. 34

The savings, hopes, plans and assumptions and aspirations of huge numbers of people were swept away in a chaotic whirlwind... Even when the worst material impact was over, the psychological shock of the experience was to have longer lasting effects, confirming a deep-seated dislike of democracy, which was thereafter equated with economic distress, and a heightened fear of the possibility of economic instability.

SOURCE 2 - General John Hartment Morgan, Disarmament Commission, December 1923

*Inflation has destroyed the equipoise [balance] of society. It has ruined the middle classes and impoverished the workers... It has been a tremendous solvent [weakening agent] of society... Inflation has undermined the political basis of the Republic and concentrated all real power in the hands of a few, namely the great industrialists... In no country in the world is capital so strong or politically so **despotic**. The economic form of society fails to correspond to the political theory; a republic in name, it is capitalist despotism in fact.*

SOURCE 3 - Gustav Stresemann, Foreign Minister, 1927

*The intellectual and productive middle class, which was traditionally the backbone of the country, has been paid for the utter sacrifice of itself to the state during the war by being deprived of all its property and by being **proletarianised**.*