

The Impact of Hyperinflation

'Two women were going to the bank with a washing basket filled with notes. They passed a shop and saw a crowd standing round the window, so put down the basket for a moment to see if there was anything going that could be bought. Then they turned round and found that all the notes were there, untouched, but the basket had gone.'

It is difficult to believe that such a theft actually happened but it did - in Berlin in 1923. It happened because the German people had lost all confidence in their currency. Monetary systems are based on confidence. In Hong Kong today, you can be confident that a \$10 note will be accepted in a shop in return for a purchase. Both you and the shopkeeper are confident about the value of a banknote. If that confidence is lost, the shopkeeper might only hand over what you want if you offer him more paper money, so in effect the price goes up. Once confidence in a currency is lost, its value plummets and inflation soars.

This is what happened in Germany in 1923 when the Weimar Republic was hit by one of the worst inflationary crises in history. By November 1923 the German mark was worthless, as confidence in the economy collapsed. Inflation was so extreme that at one stage an egg cost 80 million marks and a glass of beer 150 million marks. People resorted to barter, for examples, using coal and sausages as currency. Workers rushed to spend wages before they lost even more value with prices rising between 20 and 100 per cent in a day. There were major food shortages, since farmers were reluctant to sell food for worthless money.

| | Marks to the \$US | Wholesale prices |
|----------|-------------------|------------------|
| 1914 Jul | 4.2 | 1 (1913) |
| 1919 Jan | 8.9 | 2 |
| 1920 Jan | 14.0 | 4 |
| Jul | 39.5 | |
| 1921 Jan | 64.9 | 14 |
| Jul | 76.7 | |
| 1922 Jan | 191.8 | 37 |
| Jul | 493.2 | 100 |
| 1923 Jan | 17,792 | 2,785 |
| Jul | 353,412 | 74,787 |
| 4 Aug | 620,455 | |
| Sep | 98,860,000 | 23,949,000 |
| 25 Oct | 260,208,000 | 7,095,800,000 |
| 4 Nov | 200,000,000,000 | 750,000,000,000 |

↑ SOURCE 1 - The awful statistics of hyperinflation

ACTIVITY

1. What can you learn from each of Sources 1-7 about the inflationary crisis?
2. Explain who gained and who lost from the hyperinflation of 1923.
3. How far can the effects be explained in class terms?

SOURCE 3 - K. Heiden, *Der Fuhrer: Hitler's Rise to Power*, 1944. Heiden was a German democrat who lived through Weimar and Nazi Germany; he carefully collected evidence to use in his anti-Nazi writings:

On Friday afternoons in 1923, very long lines of workers waited outside the pay windows of the big German factories, department stores, banks and offices, watching the clocks until at last they reached the pay window and received a bag full of paper bank notes. According to the figures on the notes, they were worth anything from 700,000 marks up to 380 billion or even 18 trillion marks; the figures rose month by month, then week to week, then day to day.

People began running as soon as they could. They dashed to food stores where there were further slow queues. Had you got there first, a half kilo of sugar might have been bought for 2 million marks. If you were at the back, by the time you got to the counter, 2 million would buy only a quarter kilo.

The government printing presses could not keep up. People carried their money around in sacks or prams. Life was madness, nightmare, desperation, chaos.



↑ SOURCE 2 - Money as waste paper

SOURCE 4 - Letter from a bank to a German about his savings built up during a life of hard work under the Second Reich. The envelope bore a 5 million mark postage stamp:

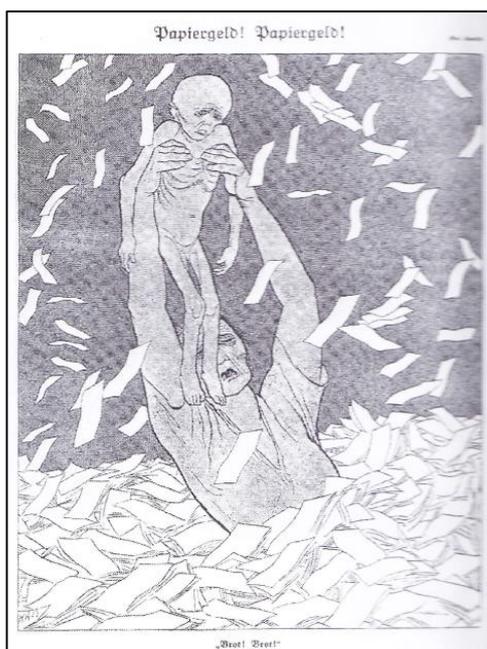
The bank deeply regrets that it can no longer administer your deposit of 68,000 marks since the costs are out of all proportion to the capital. Since we have no bank-notes of small enough denominations at our disposal, we have rounded out the sum to one million marks. Enclosed: one 1,000,000 mark bill.



↑ **SOURCE 5** - Impoverished middle-class Germans selling their household possessions to raise money in 1922.



↑ **SOURCE 6** - Notice in a Berlin shop window: 'No sales to foreigners'



↑ **SOURCE 7** - Cartoon from the German magazine *Simplicissimus*, 1923. Drowning in a sea of paper money, the mother screams, 'Bread! Bread!'

Who benefited and who lost out?

You are probably used to being told by governments that inflation is bad. However, many Germans actually benefited from the collapse in the value of the mark. Many people in debt, such as mortgage holders, paid off their loans with the devalued currency. Many entrepreneurs with access to cheap credit, especially via the Reichsbank, used loans to extend their holdings, and then easily repaid the loans when their income had increased in money terms. People who rented property with long-term rents gained as the real value of their payments fell. Owners of foreign exchange and foreigners in Germany who converted their money into millions of marks also greatly benefited. Exporters gained from the mark's falling exchange rate.

However, hyperinflation was catastrophic for the majority. The greatest losers were those with savings, especially many pensioners who lived off fixed-interest investments. The value of their hard-earned savings disintegrated. Those who had patriotically purchased **war bonds** found their investments and the interest paid lost almost all their value. Those relying on welfare benefits and landlords receiving fixed rents found the value of their incomes fall. By 1923, the cost to a landlord of one window replacement might be greater than all the rents received in the last ten years.

Workers initially secured compensatory wage rises, but these lagged behind rising prices. It has been estimated that unskilled workers lost 30% of their spending power between 1913 and 1923. Civil servants, who initially made gains in 1920-22, found their real income declining again.

These were the main groups of winners and losers from hyperinflation, but the historian Peukert (*The Weimar Republic*, 1991, p. 66) has warned against simple class-based generalisations such as 'the destruction of the middle-class': 'Two individuals from the same broad social class might be affected very differently, depending on the precise period in question, the part of the country in which they lived and their exact role within the fabric of the economy. Indeed, it was precisely through the confusion experienced by individuals and their fears for their social status that the real psychological impact of the inflation made itself felt. A profiteering ethic became common among people who had previously prided themselves on their rectitude [good behaviour]. Other turned to crime out of sheer hardship. The shifts in the relative standing of the different social groups... made individuals uncertain about their social status.'