**Germany after World War 1: War, Hyperinflation, and the People**

**Amrin Khondokar**

"Bread is 600 billion (today, 850 billion). A pale, sickly woman sitting next to me seemed not to have learned the price yet. She bobbed up, repeating desperately, “600 billions!” This is what Bertha Pappenheim heard in 1923, as Germany was going through hyperinflation after the catastrophic World War.[[1]](#footnote-0) ‘Inflation’ is the substantial and rapid rise in all prices of general products of a country. [[2]](#footnote-1) Germany was imposed the reparations of 132 billion gold marks after their loss in the First World War. This amount was twice Germany’s annual income.[[3]](#footnote-2) To pay for this, they make questionable decisions, harming their economy and ordinary German lives. This incident or history raises one question: Is a military legacy worth creating inflation and famine, ruining the majority of a country?

Inflation generally means the abundance of money, an increase in the wealth of the nation and its people, and a higher demand for products. An increase in money supply increases output or price, or both simultaneously. When an output is pushed to the ultimate capacity and cannot be pushed anymore, but policymakers keep growing the money supply, inflation happens.[[4]](#footnote-3) While this is beneficial at a slow rate, hyperinflation within a short period might be an issue for a nation. Wars create economic instability, which can either be more pronounced or weaker. An economic crisis may start if a war is lost, depending on how authorities handle it afterwards.

Germany made a new monetary system effective from 1st January 1876, and the Reichsbank took control of the empire’s economic policy. The Reichsbank was the private bank under the imperial government, providing credit to the country. The German Empire set up a central bank named "Reichsbank" to give credit to the government and create a discount rate policy because of a difficult economic situation. [[5]](#footnote-4) This central bank was in charge of the economic condition of the empire. And while the country was going through fierce wars, the monetary base increased, creating hyperinflation. The monetary base might include money circulated among the citizens, vault cash, banker’s balance in the central bank, and all the liabilities or assets the bank assumes due to any loans. [[6]](#footnote-5)Monetary bases might be affected by the country's economic condition, with hyperinflation being one of the factors.

After their loss in the 1st World War, the German Empire allowed three main things, which were primarily responsible for hyperinflation. Their rules were 1. The Reichsbank was not obligated to redeem old marks. 2. Loan offices were permitted to issue new paper money for an advance on paper goods and securities. 3. The German Empire empowered the Reichsbank to accept Treasury bonds or bills as security to issue new paper money. The German Government was now allowed to print fresh money to pay for the war loans. Purchasing power increased due to the new issue of paper money and the Reichsbank’s notes, which significantly boosted purchasing power, leading to a rise in prices. War loans were issued but later deducted at the Reichsbank. Paper money and credits were issued to private borrowers. This created floating debts; they issued loans and immediately forgave them. By August 1914, 2 billion marks were discounted. Floating debt rose to 58.6 billion by January 1919, along with the previously funded debt of 98 billion War Loans. This newly created debt was not saleable. The taxation system did not work, and public expenditure shot up. At the end of 1917, Germany's monetary base was 3.5 times the base of 1913, and the money supply was 2.54 times the base in 1913. Additionally, war finance was increasing due to the government’s belief that the war would be short-term and because they had tax reservations, namely the Bismarckian financial system. [[7]](#footnote-6)

The production and export situation was also not doing well. By 1919, Germany's stocks of raw materials were exhausted. The country made payments on a large scale by exporting only. Because of this, they had to buy raw materials from abroad. And to pay, they had to make foreign currency purchases by offering paper marks. Under these painful conditions, Germany forcefully accepted the terms of the Versailles Treaty and promised to pay massive reparations.6

Since the outbreak of the present war, direct German controls have been severe enough to prevent an increase in prices and wages. This might have been caused by the fast Velocity of Money. Due to inflation, people were receiving more money and wanted to spend it as soon as possible.

Before this, Germany's war financing depended too little on taxation and more on borrowing, which led to accumulating debts. German income taxes had a minimal effect on finance during the war, slightly doubling in 1914-15 and 1918-19, although the state surcharged certain tax rates. This tax was imposed due to fears that losing income tax revenue due to the war would harm future finances. This lack of increase in tax Yield, even after a war, is likely due to the reluctance of the government to penalize or charge the wealthier people while the poorer suffered. It ultimately led to a revolution in 1918, as the people did not want to endure such inflation. [[8]](#footnote-7)

Hyperinflation made the German currency worthless. By the end of 1923, one gold mark was equal to a 1 trillion paper mark. [[9]](#footnote-8)In the letter of Bertha Pappenheim, to quote, “The others griped about the young folks who earn money but won’t help; they only smoke cigarettes and wear sheer stockings. And about the peasants who hide potatoes, feed them to the livestock, and sell them for dollars only.”[[10]](#footnote-9)

While the German government had to pay no reparations to its citizens, one might ask, “Was ruining the perfect economy worth it?”As said by John Maynard Keynes, the German population had a secure lifestyle before the war, without any economic surplus. Their economy was built on products like iron, coal, transportation and an unlimited supply of imported food and raw materials from different continents. The war destroyed this foundation and deprived the entire country of its means of living. [[11]](#footnote-10) The bourgeoisie, the Reichsbank, and the government did not care about the people whose lives and means to live were spent on war. It took billions of marks to get food or necessities, and created famine. At the same time, the Treaty of Versailles had its effects on Germany. "To put the Peace conditions into execution would logically involve, therefore, the loss of several millions of persons in Germany. This catastrophe would not be long in coming about, seeing that the population's health had been broken down during the war by the Blockade and during the Armistice by the aggravation of famine. No help, however great, or over however long a period it was continued, could prevent these deaths en masse."[[12]](#footnote-11)

While government decisions, the influence of the elite on the economy, and massive debts have played a significant role in this inflation, the war legacies and pride have created a difficult issue. Along with that, the military legacy played a considerable role in this case. And it ultimately makes me wonder whether this military, war, political pride, or legacy was worth a country’s citizens and its stable economy.

**References:**

A. J. B. “War-Time Inflation: I. What Is Inflation?” *Bulletin of International News*, vol. 22, no. 1, 1945, pp. 11–15. *JSTOR*, http://www.jstor.org/stable/25643744. Accessed 17 Dec. 2022.

Balderston, T. “War Finance and Inflation in Britain and Germany, 1914-1918.” *The Economic History Review*, vol. 42, no. 2, JSTOR, May 1989, p. 222. <https://doi.org/10.2307/2596203>.

CrashCourse. “Recession, Hyperinflation, and Stagflation: Crash Course Economics #13.” *YouTube*, 30 Oct. 2015, [www.youtube.com/watch?v=BHw4NStQsT8](http://www.youtube.com/watch?v=BHw4NStQsT8).

Chart of German Hyperinflation by Greensburger. Based on numbers in Table IV (page 441) of Costantino Bresciani-Turroni, The Economics of Inflation: A Study of Currency Depreciation in Post-War Germany (Northampton: John Dickens, 1937).

Darné, Olivier, and Claude Diebolt. “Explorations in Monetary Cliometrics: The Reichsbank: 1876-1920.” *Historical Social Research*, vol. 25, Jan. 2000, pp. 23–35. https://doi.org/10.12759/hsr.25.2000.3/4.23-35.

DORVAL, BILL, and GREGOR W. SMITH. “Interwar Inflation, Unexpected Inflation, and Output Growth.” *Journal of Money, Credit and Banking*, vol. 47, no. 8, Wiley, Nov. 2015, pp. 1599–615. <https://doi.org/10.1111/jmcb.12285>.

Facing History and Ourselves: Holocaust and Human Behavior (Facing History and Ourselves National Foundation, Inc., Brookline, Massachusetts, 1994), page 136.

Ferguson, Niall. “Public Finance and National Security: The Domestic Origins of the First World War Revisited.” *Past & Present*, no. 142, 1994, pp. 141–68. *JSTOR*, http://www.jstor.org/stable/651199. Accessed 17 Dec. 2022.

FAY, SIDNEY B. “Inflation: Germany, 1919-1923.” *Current History*, vol. 15, no. 83, 1948, pp. 22–30. *JSTOR*, http://www.jstor.org/stable/45307373. Accessed 15 Nov. 2022.

Goodhart, C.A.E. (1984). Monetary Base Control. In: Monetary Theory and Practice. Palgrave, London. https://doi.org/10.1007/978-1-349-17295-5\_8

izzitEDU. “Too Much Money - Hyperinflation in Germany.” *YouTube*, 27 Aug. 2012, [www.youtube.com/watch?v=o5b618iV3tM](http://www.youtube.com/watch?v=o5b618iV3tM).

John Maynard Keynes, The Economic Consequences of the Peace (New York: Harcourt Brace Jovanovich, 1920), pages 211–216.

Maier, Charles S. “The Vulnerabilities of Interwar Germany.” *The Journal of Modern History*, vol. 56, no. 1, University of Chicago Press, Mar. 1984, pp. 89–99.<https://doi.org/10.1086/242621>.

Oliver, Henry. “War and Inflation since 1790 in England, France, Germany, and the United States.” *The American Economic Review*, vol. 30, no. 5, 1941, pp. 344–51. *JSTOR*, http://www.jstor.org/stable/1816439. Accessed 17 Dec. 2022.

1. Facing History and Ourselves: Holocaust and Human Behavior (Facing History and Ourselves National Foundation, Inc., Brookline, Massachusetts, 1994), page 136. [↑](#footnote-ref-0)
2. Inflation: Germany, 1919-1923, pp-24 [↑](#footnote-ref-1)
3. izzitEDU. “Too Much Money - Hyperinflation in Germany.” *YouTube*, 27 Aug. 2012, www.youtube.com/watch?v=o5b618iV3tM. [↑](#footnote-ref-2)
4. CrashCourse. “Recession, Hyperinflation, and Stagflation: Crash Course Economics #13.” *YouTube*, 30 Oct. 2015,www.youtube.com/watch?v=BHw4NStQsT8. [↑](#footnote-ref-3)
5. Darné, Olivier, and Claude Diebolt. “Explorations in Monetary Cliometrics: The Reichsbank: 1876-1920.” *Historical Social Research*, vol. 25, Jan. 2000, pp. 23–35. https://doi.org/10.12759/hsr.25.2000.3/4.23-35. [↑](#footnote-ref-4)
6. Goodhart, C.A.E. (1984). Monetary Base Control. In: Monetary Theory and Practice. Palgrave, London. https://doi.org/10.1007/978-1-349-17295-5\_8 [↑](#footnote-ref-5)
7. FAY, SIDNEY B. “Inflation: Germany, 1919-1923.” *Current History*, vol. 15, no. 83, 1948, pp. 22–30. *JSTOR*, http://www.jstor.org/stable/45307373. Accessed 15 Nov. 2022. [↑](#footnote-ref-6)
8. Balderston, T. “War Finance and Inflation in Britain and Germany, 1914-1918.” *The Economic History Review*, vol. 42, no. 2, JSTOR, May 1989, p. 222. https://doi.org/10.2307/2596203. [↑](#footnote-ref-7)
9. Chart of German Hyperinflation by Greensburger. Based on numbers in Table IV (page 441) of Costantino Bresciani-Turroni, The Economics of Inflation: A Study of Currency Depreciation in Post-War Germany (Northampton: John Dickens, 1937). [↑](#footnote-ref-8)
10. Facing History and Ourselves: Holocaust and Human Behavior (Facing History and Ourselves National Foundation, Inc., Brookline, Massachusetts, 1994), page 136. [↑](#footnote-ref-9)
11. John Maynard Keynes, The Economic Consequences of the Peace (New York: Harcourt Brace Jovanovich, 1920), pages 211–216. [↑](#footnote-ref-10)
12. John Maynard Keynes, The Economic Consequences of the Peace (New York: Harcourt Brace Jovanovich, 1920), pages 211–216. [↑](#footnote-ref-11)