

“GERMANY’S GREAT INFLATION – HOW IT CHANGED THE NATION”

Talk by Frederick Taylor at EABH Prague 2015

(1 – Opening Image)

Good day, ladies and gentleman. I am a historian primarily interested in politics and society, and especially in human beings’ reactions to extreme events. This has caused me to write about such things as the bombing of Dresden, the building of the Berlin Wall, and the horrific final weeks of the Second World War. It is also why I became interested in Germany’s traumatic Great Inflation, now more than ninety years in the past but still influencing how we – especially those of us who are German – think about this subject.

As banking and financial historians I’m sure you are familiar with the technical aspects of the inflationary phenomenon. Milton Friedman famously proclaimed that it is “always and everywhere a monetary phenomenon”. This seems to me true in the sense that war is “always and everywhere a military phenomenon”. True (perhaps even a truism), but not quite the whole truth. As for the matter of hyperinflation, well – as Niall Ferguson has pointed out -- it’s not even close to the truth. All the states involved in the First World War experienced inflation. They overspent, they experienced shortages and hence rapidly rising prices, they debauched their currencies in one way or another, and so on. But only two of the major countries under consideration Austria-Hungary and Germany -- experienced out of control price spirals. That is, hyperinflation. And politics played a crucial role in that fact.

(2 – Berlin 1910 pic)

OK, this postcard photograph of Unter den Linden in Berlin – a few hundred metres east of the Brandenburg Gate -- is dated 1910. Germany was the second most successful industrial

country in the world and seemed destined for world power status. Nevertheless, the scene on the elegant boulevard is a relaxed, almost idyllic one.

But beyond the eastern end of Unter den Linden began working class Berlin, with its huge tenement blocks – the notorious “Mietskasernen” (German for “rental barracks”).

(3 & 4 -- Mietskasernen)

In the dark, unsanitary so-called *Hinterhöfe* (literally: rear courtyards) of these tenements lived Berlin's poor. Their lives were chronicled by the great contemporary cartoonist, Heinrich Zille.

(5 – Zille cartoon)

At the end of the First World War, as Germany faced defeat, the world of those working class men and women, of rear courtyards and grinding poverty, erupted into Unter den Linden.

(6 & 7 -- Revolutionary soldiers & civilians at Brandenburg Gate)

Revolutionary soldiers and civilians at the Brandenburg Gate, 9 November 1918. The day of the German revolution.

(8 -- Kaiser on station platform)

And the day Kaiser Wilhelm took his imperial train into Holland and exile. He is not the guy in the cloak but the one slightly in the background to his right.

Two days later, on 11 November 1918, the war ended. To prove it, here is the front page of the *New York Times*.

(9 -- NYT front page)

The rulers of the new German Republic were men of the Left. Their Party, the biggest socialist movement in the world, had supported war in August 1914. Later, however, it split into the Majority Social Democrats, who continued to support the war, and the Independent Social Democrats, who stopped supporting it. By 1918, the Independents and the Spartacists, a far-left splinter group that would form the kernel of the German Communist Party, were rapidly gaining political traction.

Things were starting to look properly revolutionary. But Friedrich Ebert, the moderate Social Democrat who now headed up the government ...

(10 -- Ebert)

had already conducted a secret telephone call with General Groener, commander in chief of the German army ...

(11 -- Groener)

... in which he promised he would do all he could to ensure an orderly post-war demobilisation, which meant retaining army ranks and discipline. In return, the High Command promised its support against the threat of communism.

Nor were the new government and the army the only two conflicting interests to reach a compromise in this hour of need. Representatives of big business, anxious the revolution might lead to Bolshevism, and the German trade unions, now in a uniquely strong position, but interested in labour reform rather than revolution, met in Berlin on 15 November.

They made a deal known as the Stinnes-Legien Agreement, after the chair of the Federation of German Trade Unions, Carl Legien ...

(12 -- Legien)

... and Hugo Stinnes ...

(13 -- Stinnes)

... soon to become notorious as “the inflation king “. Stinnes would dominate the German business world during this unstable post-war era.

They agreed an 8-hour day, compulsory wage bargaining, and worker representation within company boards.

Legien got what he wanted for his workers. The industrialists gave what they must, to ensure the survival of capitalism.

By mid-January 1919, however, there was large-scale political violence in Berlin. The social democrat government successfully invoked the army against Spartacist rebels.

(14 -- Spartacists)

In May another uprising was also bloodily suppressed.

From now on, the left remained bitterly divided between Social Democrats and Communists. Between thirty-five and forty per cent of Germans would vote for some variant of socialism until the end of the Weimar Republic. But the left would never unite to defeat fascism until it was too late.

Later that summer, a counter-revolutionary soldier in Munich would attend a meeting of an obscure, far-right group called the “German Workers’ Party”. He impressed everyone with his oratory. He quickly became its chief propagandist and soon its leader. I refer of course to the young Adolf Hitler.

(15 -- early Hitler)

Meanwhile, for the still-shaky democratic government there was the problem of re-establishing a peacetime economy. And of putting Germans back to work.

(16 -- German soldiers returning from war)

With around nine million German soldiers to be demobilised – here a unit returning from the front in December 1918 -- and found jobs, the new republican government faced difficult decisions. However, with political violence endemic, and huge reparations being demanded by the victorious Allies, it was in no position to make tough choices. Jobs for all and order in the streets were the urgent priorities. Millions of unemployed ex-soldiers would have presented a far worse threat to the country than inflation.

And so the seeds of the German currency's downfall were sown. In 1914, the mark had stood at 4.2 to the dollar. In the first days of war, the Reichsbank decoupled the currency from gold, as did the financial authorities of the other belligerents (except for America). Wars are horrendously expensive. And coming off the gold standard is what you have to do when you want to spend money that you don't, strictly speaking, have.

By November 1918, the mark hit 8.9 – its value more than halved, despite wartime exchange regulations. It dropped to 13.5 after the revolution. Following the announcement of harsh peace terms at Versailles in July 1919, a swifter slide began. By September 1919, we're seeing 21 to the dollar. By the end of December, 49. The mark was worth less than a tenth of its pre-war value.

All countries involved in the First World War experienced two to three hundred per cent rises in prices during the course of the conflict. By 1920, however, America, Britain and France had taken steps to defeat inflation, at the cost of a sharp economic slowdown. In America, the

brief but savage recession was for some time known as the “Great Depression” – until, ten years later, a far worse one came along.

This was the German government’s dilemma. Should it follow their example? Should it impose austerity to protect the Mark, and the savings and investments of the country’s middle and upper classes? This went against the whole ethos of the revolution, which was to create a progressive welfare state. And it would risk high unemployment for millions of ordinary Germans, who had already suffered so much in four years of war.

The fall in the mark was bad for imports, especially vital food supplies. But it was good for German exports, because it made them cheaper, and helped to keep the mass of the people in work. During 1920, the currency rallied, but this was not necessarily good news. Here the rate of the mark to the dollar through 1920 and 1921, compared with unemployment among unionised workers. Unemployment rose whenever the mark strengthened.

(17 -- Chart of mark exchange rate and unemployment)

There was, as we see, a relative stabilisation between spring 1920 and autumn 1921. If the government had concentrated on keeping the mark up and the deficit down, this might have become permanent. But ministers didn’t want the mark to become too strong -- that would harm the export drive, which was vital for paying reparations and ensuring a degree of political stability at home. 70 marks to the dollar was considered a good rate for that purpose.

For most Germans, this relatively modest inflation was bearable. But there were many who were already suffering. Those on fixed incomes – investors, *rentiers* and holders of annuities -- and also those whose salaries and fees did not increase in line with inflation – academics, lawyers and doctors, teachers, clergy, higher civil servants. These were the traditional,

educated middle classes, the so-called *Bildungsbürgertum*, whose lifestyle was often subsidised by supposedly “safe” fixed-rate investments handed on through the generations. Such investments were now becoming worthless.

(18 – War Bond)

Especially true of War Bonds, in which the middle classes invested heavily, for patriotic reasons. By 1919 this once dominant social group had already suffered a serious loss in its standard of living, compared with manual workers.

In 1920, a British journalist described the plight of one member of Germany’s elite, who before the war had enjoyed social prestige and a comfortable life:

“The yearly salary of the Director of one of the greatest museums in Germany is 30,000 marks, not allowing for heavy taxation. This Director, withstanding his keen desire to entertain an English visitor . . . was unable to offer him a sandwich or a biscuit in his almost palatial home. There was practically no food in the house. “

This was long before galloping inflation had given us those notorious images of the wheelbarrows full of money needed to buy a few groceries

Meanwhile, political dramas persisted. For a few days in March 1920, a collection of renegade army units seized Berlin and installed a conservative ultranationalist by the name of Wolfgang Kapp as Chancellor.

(19 --Kapp)

Those marks on Kapp’s face are not laugh lines, if that’s what you thought, but duelling scars.

(20 -- Kapp troops in Berlin)

Defeated not by government forces, which remained neutral, but by a general strike, the Kapp Putsch fizzled out. This showed that, for now, the far right enjoyed little popular support. It also showed, less comfortingly, that the army and its allied militias would not use force against conservative conspirators. In stark contrast, a communist-led uprising in the Ruhr was crushed with maximum violence.

Warning. This is an unsettling picture.

(21 – Dead workers and Freikorps)

Around a thousand insurgents were killed. Like the townsfolk in a western who hire a gunslinger to protect them, only to find he turns against them once the job is done, the republic's well-meaning rulers had created a monster they could not control.

Political violence. Inflation. The effects of the Versailles Treaty. All these converged to make the new democracy increasingly unpopular. A succession of weak, unstable coalitions struggled to impose order on the politics and finances of Germany.

(22 -- Weimar Cabinet)

A Weimar coalition cabinet. We perhaps find they look a little comical, with their stiff collars and varied display of facial hair. Plus, strictly no women ...

Anyway, even before the end of 1919, the mark had fallen to a tenth of its pre-war value.

That is enough to turn a large fortune into a small one. And a small fortune into ... no fortune at all.

Soon the mark was falling again. The Allies' increasingly urgent reparations demands, the awarding of Upper Silesia, one of Germany's most important industrial areas, to Poland, the

cost of welfare and a still-bloated bureaucracy, the failure to raise sufficient taxes, and a wave of political assassinations, all contributed.

In the spring of 1922, the mark stood at 300 to the dollar. Then in June, Foreign Minister Walter Rathenau was murdered in Berlin by a group of young right-wing extremists.

(23 -- Rathenau)

Here the crime scene, on the Königsallee, in suburban Grunewald.

(24 -- Crime scene)

Rathenau was being driven to the Foreign Office in his open-topped car. As it reached a junction, another vehicle drew level and a young man fired several shots at him. Another tossed a grenade.

A construction worker who witnessed everything said the assassin had a “healthy, open face, as people like us say, sort of an officer’s face.”

(25 -- Kern and Fischer)

He was referring to Erwin Kern, 23 years old (left), son of a high legal official from Breslau. Kern’s co-assassin was Hermann Fischer (right), son of a Professor of Fine Art. Their car was driven by Ernst Werner Techow, son of a senior official of the Berlin municipality. The father of another conspirator, Ernst von Salomon, was a high-ranking police officer.

Kern and Fischer were killed in a shoot-out with police, but von Salomon, Techow, and others stood trial in the autumn of 1922.

(26 -- Techow and Salomon at trial)

Nice clean-cut bourgeois boys, every one.

Germany now began its trajectory towards hyperinflation. It remained the world's second largest economy, but the country was beginning to resemble a runaway train filled with unhappy passengers.

In the first class wagon, the new republic's leaders were watching the increasingly neglected landscape whizz past ever faster with a sense of growing panic, but little idea what to do. Except blame the Allies for demanding all those reparations.

Meanwhile, in second class, the resentful souls who had until recently occupied first class were plotting how to reclaim their rightful due, if necessary by murderous means.

In the cramped and ill-supplied aisles of third, a battle was shaping up between the growing communist party and the new mass organisations of the ultranationalist right - most prominently Adolf Hitler's National Socialist Workers' Party -- who were competing for the loyalty of Germany's lower-middle and working class.

Everyone was shouting instructions. Fights were constantly breaking out. No one was putting on the brakes. To do so would be to admit that the German train was running out of track.

The height of the hyperinflation came in 1923, after the French and their Belgian allies decided that the Germans had defaulted. Their reaction was anything but a purely monetary phenomenon. Their armies occupied the Ruhr. They took physical possession of Germany's industrial heartland ...

(27 -- French soldier on coal truck)

Here a French soldier guards a load of German coal bound for France as payment in kind.

(28 -- billion mark note)

Paper money became pretty much worthless. The face value of this banknote is a German billion, by the way. What in England and America we would call a trillion.

Even successful artists such as George Grosz were going short of a square meal.

(29 -- Grosz)

As for the Berlin cabarets, one might have expected left-wing satire to be in mode during the hyperinflation, but it was not. In fact, many radical cabarets closed down during this time, leaving just the middlebrow establishments and those that catered for foreigners. It got so bad that for a while the great left-wing satirical writer and lyricist, Kurt Tucholsky ...

(30 -- Tucholsky)

... had to get a daytime job. And in a *bank*, at that. At a time when financial acrobatics of every kind formed a key part of day-to-day survival for millions of Germans, banks were booming. The Deutsche Bank had fifteen branches in 1914. By 1923 it had 242. The Commerz- and Privatbank's network increased from eight to 246 during the same period.

Clearly, by this final stage in the slide to hyperinflation, the German economy was in an insupportable condition. However, until now, society had actually continued to function. So there must have been some rationale behind the process. Did anyone, in fact, benefit from the German inflation?

Well, creditors and savers lost almost everything. But anyone who owed money had their debt liquidated by inflation. There were profiteers and speculators, obviously, but they were not alone. Investors in stocks and shares also profited -- unlike fixed investments, these could increase in price along with the cost of living and with luck provided a good return

throughout the entire hyperinflation. Mortgage holders could pay off their debts with depreciated money. Farmers could also pay off their mortgages and other liabilities. They prospered – especially if they were prepared to sell on the black market to middle men and desperate town-dwellers. There were tales of simple peasants suddenly acquiring strings of race horses.

The cities, however, went hungry.

(31 -- Hamsterers)

Here city folk returning from foraging trips in the countryside. Tellingly, two million town-dwellers with rural connections returned there to live during these years.

Then there were industrialists such as Stinnes, who borrowed money from the Reichsbank at low interest rates, and repaid it later in depreciated marks. Exports were booming, of course. They could either leave the precious foreign exchange from these sales in bank accounts abroad, or repatriate it in a timely fashion and use it to buy businesses, properties and other material assets inside Germany at cheap prices.

By 1923, Stinnes owned or part-owned mines and steelworks, but also a shipping line, hotels, newspapers, engineering works, shipyards, timber mills and pulp plants, and other enterprises, reckoned to have reached about four and a half thousand in total.

(32 - Stinnes and ship)

Observe Hugo and Frau Stinnes admiring a nice boat he has acquired.

The same advantages were there for foreigners and anyone who had access to foreign currency, be it dollars, sterling, Swiss francs, or whatever. Even the new Czech koruna. There

were complaints in the German press about Czech speculators buying up whole city blocks in Berlin.

The crucial time for expatriates and German holders of foreign currencies was three in the afternoon, German time -- early morning in New York -- when the American banks opened and the new Dollar-Mark rate was posted. Holders of foreign currency then hurried to buy whatever they wanted before domestic prices increased to reflect the new currency position.

Of course, as inflation became a permanent feature of life, and traders started to anticipate increases, these domestic price adjustments happened more quickly and more drastically, so that even foreigners found it hard to keep ahead of the price explosion and thus exploit their advantage.

Even manual workers did not, for the most part, suffer a catastrophic fall in their living standards -- especially if they had a union to protect them. Lower and middle ranking civil servants also enjoyed some protection through inflation-linked salary increases. Wartime rent controls were still in force, so that whereas in 1914 the average family had spent 15-20 per cent of its income on rent, by 1923 this had fallen to only 0.7 per cent. It was not until runaway hyperinflation brought economic chaos, and rocketing unemployment, in the summer of 1923, that a demand for an end to the price anarchy became almost universal.

(33 -- Money on carts)

Here, outside a bank, small business employees load sacks of money onto a cart. This represents their workforce's wages for the day.

So, back to our embattled and embittered middle class. They could not or would not manipulate the system to survive. Most lost everything. Charitable organisations held auctions at which the broke bourgeoisie could sell their once-precious possessions.

(34 -- Auction)

The father of the journalist Sebastian Haffner was a senior civil servant. He stubbornly told his family, even at the height of the inflation: “Ein preußischer Beamte spekuliert nicht”. A Prussian civil servant does not speculate. It was up to his wife to do what she could on the day her husband’s salary was paid:

(35 -- Food queue in 1923)

“... My father would try to acquire a monthly season ticket for the underground railway as fast as he could, so that during the next month he could at least travel to work...Then cheques were written for the rent and school fees, and ... the whole family would go to the hairdresser. What money remained was handed over to my mother – and the next day the entire family, even the housemaid [they still had a housemaid!], though not my father, got up at four or five a.m., and took a taxi to the central market. In the course of an hour the monthly salary of a Senior Government Councillor was spent on non-perishable food. Huge cheeses, whole hams, hundredweights of potatoes, were all loaded into the taxi. If there wasn’t enough room, the housemaid and one of us children would get hold of a hand cart. At around eight o’clock ... we would return home, more or less supplied with enough to see us through a month’s siege ... For another month there was no more money.”

Disillusionment with democracy among Haffner’s class was near-universal. It’s no surprise that, when you examine the backgrounds of the young men responsible for the assassinations

carried out by the nationalist right during these years, you invariably see that, like Rathenau's killers, their father's profession is given as civil servant, or university teacher, or lawyer.

In Munich, meanwhile, Adolf Hitler controlled a new kind of fanatical, paramilitary political organisation, the Nazi Party. On 9 November 1923 – the fifth anniversary of the revolution in Berlin – he used a meeting at the gigantic *Bürgerbräukeller* beer hall to launch a counter-revolutionary coup. The *Bürgerbräu* had been the scene of many Nazi meetings.

(36 -- Nazi meeting in Bürgerbräu)

Now, it seemed, with thousands of armed followers at his command, this was Hitler's chance. Germany's "starving billionaires" – his phrase for the masses impoverished by hyperinflation – would, he believed, flock to him and join a "march on Berlin".

(37 -- Hitler forces)

Famously, Hitler's first grab for power failed. His forces tried to march into the city centre, but fled when the Munich police opened fire. Their self-styled Führer seemed finished.

Six days later, on 15 November 1923, Germany's new currency – the so-called *Rentenmark* – came into circulation, fixed at a rate of one *Rentenmark* to one trillion paper marks. The issue was supposedly backed by a mortgage on the country's industrial and agricultural wealth. Or something. It was, essentially and literally, a confidence trick.

(38 -- Rentenmark)

The magic of the *Rentenmark* was managed by a wizard called Hjalmar Schacht. A brilliant banker, of course, with a host of international financial connections, he was appointed "Currency Commissioner". His job was to rally support for the new Mark, and thereby save Weimar Germany's economy.

(39 -- Schacht)

He ran his operation from a converted cleaner's store room at the back of the Finance Ministry in Berlin. When asked later how he did it, his secretary said:

“What did he do? He sat on his chair and smoked in his little dark room which still smelled of old floor cloths. Did he read letters? No, he read no letters. Did he write letters? No, he wrote no letters. He telephoned a great deal – he telephoned in every direction and to every German or foreign place that had anything to do with money and foreign exchange as well as with the Reichsbank and the Finance Minister. And he smoked. We did not eat much during that time. We usually went home late, often by the last suburban train, travelling third class. Apart from that he did nothing.”

There were nervous moments. But by the summer of 1924 Germany had a stable currency again.

Germany, now considered a better risk, finally completed arrangements to borrow a great deal of money -- to pay the reparations it still owed the Allies. I suppose nowadays we would call that a "bail-out". Over the next five years, 21 *billion* marks (1920s values!) flowed into Germany in the form of loans, mainly from America, which enjoyed a huge surplus of capital and was looking for places to invest it.

The standard of living of working Germans surpassed the level they had enjoyed before the First World War.

(40 – 42 -- Happy workers)

The inflation, horrendous as it was for many Germans, made the country more equal, more like other advanced industrial societies.

In 1913, the proportion of Germany's national income going to "rentiers" – people living from savings and investments – had been fifteen per cent. By 1925-1926, it had fallen drastically to around three per cent. These so-called "passive" capitalists became a far less important factor in German society. Attempts to claw back some of these losses met with minimal success.

Another figure tells us why this may have been allowed to happen, and why cynicism became lodged deep in the German psyche. By 1918, the German government owed a crushing 154 billion marks in domestic war debt. At the end of the Inflation, when twelve noughts were wiped off the mark to give values in the new Rentenmark, that debt amounted to a sum total of *15.4 new pfennigs!* In effect, it had been wiped out. The ultimate debtor's benefit from inflation. Whatever the government's intentions – some scholars feel the inflation was a conspiracy, some not -- it had, in practical terms, *confiscated* the money its most loyal citizens had lent it to fight the World War. Probably it had no choice. To repay German bondholders what it owed, on top of what it owed the Allies in reparations, would have surely bankrupted the government. All the same, the war bonds fiasco felt like a cruel insult to the patriotic classes of the country.

However, the economy of the Weimar Republic seemed to have stabilised, and with it the political situation. So, was a more equal Germany a happier Germany?

(43- 44 -- Golden Twenties pics)

In the first post-inflation elections, in the spring of 1924, the democratic parties, who were blamed for the chaotic economic circumstances of the post-war era, were punished by the German electorate. Extreme left and extreme right briefly prospered. Then, as the economy picked up, the democratic parties clawed back their advantage.

However, the so-called “stabilisation” of Weimar democracy lasted, at most, four years. By 1928, the country was once more in trouble. Farming, which had booked such spectacular gains during the inflation, pretty much went bust. Arguably, the way that inflation had appeared to benefit the sector had actually discouraged the modernisation process necessary for German agriculture to survive in the longer term. There were also repeated banking crises, as the huge overseas debt proved onerous to service. This was the case even before the Wall Street crash of 1929. Weimar Germany had become, as later historians would describe it, a “mortgaged democracy”. And when its debts finally fell due, following the Crash and the calling in of American loans, it could not pay.

(45 – Communists)

Slump, mass unemployment, a revival of old resentments, and a return to extremism of the left and right – here communist militants -- was the result.

(46 -- Weimar ministers again)

We may have been amused by this photograph of 1920s cabinet ministers the first time around. But look again. It shows the last elected democratic government to rule Weimar Germany. After the collapse of this coalition in early 1930, Germany was governed by presidential decree. Three more chancellors, none with a parliamentary majority, struggled to revive their crisis-ridden country by presidential decree.

(47 -- Hindenburg)

Democracy withered.

(48 -- “Hitler- Unsere Letzte Hoffnung” poster)

And then, in January 1933, the troublemaker from Munich finally conquered Berlin.

(49 -- Hitler and Goering on balcony)

The irony is, of course, that ultimately an economic depression – perhaps prolonged in Germany by politicians terrified of repeating the chaotic post-war experience we have described -- brought Hitler to power, not inflation. But the chain of causality is still being argued about, and probably always will be.

Thank you for your attention, ladies and gentlemen.