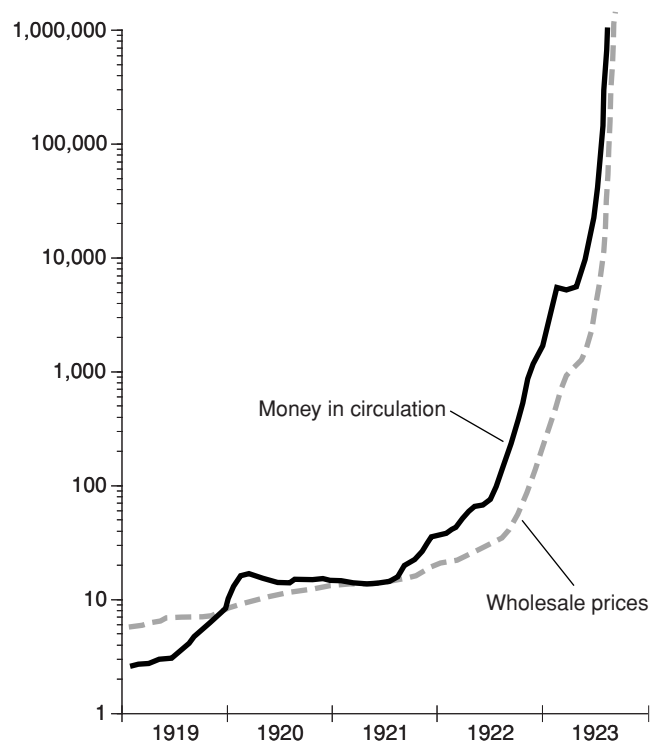


Hyperinflation in Germany, 1921-23

by Richard Freeman

During 1921-23, in Weimar, Germany, the printing presses were turned on, and the result was the infamous hyperinflation shown in **Figure 1**. The graph conveys the astronomical growth rate in Germany's currency supply and wholesale price levels, with the 1913 levels pegged to an index number equal to 1. The graph is logarithmic; that is, in this case, each level up the y-axis, represents an additional order of magnitude. By 1923, Germany's currency in circulation was 1 million times the amount of 1913, and 100,000 times that of 1920.

FIGURE 1
Germany and hyperinflation, 1921-23
(index 1913 = 1)



Source: Knut Borchardt, "Wachstum und Wechsellagen 1914-1970," in Hermann Aubin and Wolfgang Zorn (eds.), *Handbuch der deutschen Wirtschafts- und Sozialgeschichte*, Stuttgart: Klett, 1976, vol. 2, p. 699.

As a result of the 1919 Versailles Peace Conference, in April 1921, the British oligarchical financier-controlled Allied Reparation Commission fixed the sum of Germany's reparations at 132 billion gold marks, or roughly \$33 billion. Three-quarters of this amount was to be paid to France and Britain alone. Germany was to pay this amount, despite the fact that, as a result of the "peace settlement," Germany had forfeited 15% of its arable land and 75% of its iron ore deposits; its pig iron production capacity was reduced by 44%, that of steel by 38%, and that of coal by 26%.

Impossible demands

Thus, Germany could not physically meet the annual obligations on the reparations. In its attempt to do so, nonetheless, and simultaneously to supply the economy with liquidity, the Reichsbank, the central bank, cranked up the currency in circulation full throttle. After a certain point, especially following the occupation of Germany's Ruhr region by French, Belgian, and Italian troops in January 1923, to collect the reparations that Germany had defaulted on during 1922, the process became dangerously self-feeding, and the level of currency that was printed and the level of prices became astronomical.

The reader must conceptualize the nightmare that occurred. At the end of 1923, more than 300 paper mills and about 2,000 printing presses worked continuously to supply the public with Reichsbank notes. It actually cost more in paper, color pigments, engineers, printers, and lithographers to make the note, than the note was worth. On Nov 11, 1923, the Reichsbank issued a 1-trillion-mark note. At that time, a kilogram loaf of bread cost 428 billion marks, a kilogram of butter more than 5 billion, and it required a wheelbarrow to take enough money to the store. A bank account of 60,000 marks, the interest from which would, in 1913, have enabled one to lead a comfortable life in retirement, would not even buy a daily newspaper in 1923. After wages had been paid, work in the factories was interrupted, as employees rushed out to the shops carrying large bundles of money to buy goods, before prices soared even further.

Alongside the huge volume of increasingly valueless Reichsbank money, ersatz crypto-money appeared. Municipalities printed their own money. In rural areas, rye or potato coupons were used as emergency money (*Notgeld*); pieces of shoe leather served the same purpose. The industrial company BASF issued its own currency, the Anilin-Dollar. The central bank had to accept all of this money. Often, people took recourse to barter: four eggs for a hair cut, two briquettes for admission to the movies, and 40 eggs for a burial.

By the end of 1923, the economy had been shattered and living standards had collapsed, but the whirl of the printing presses could be heard in the background. Money in circulation was now 100,000 times greater than it had been only three years earlier.