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Germany's Hyperinflation of 1923

It is said that to the victor go the spoils, and at no time was this more true than in the aftermath of World War I more than a century ago, when the Allied powers imposed crippling damages on Germany. The reparations demanded ensured that the newly birthed Weimar Republic would expire in the bassinet, and that Germany, left with no choice but to print money to cover assets it did not have, would succumb to hyperinflation. No one in 1919 could have foreseen how calamitous and far-reaching the consequences would be of the punitive Treaty of Versailles and resultant German economic policies. But calamitous they were, a sobering lesson on the extraordinary dangers posed by inflationary financial policies.



wikimedia/Bundesarchiv

Fire up the presses: The German Reichsbank printed increasing amounts of paper money in the years following the First World War, leading to the infamous hyperinflation of 1923.

By 1923, hyperinflation in Germany had wiped out the middle class and paved the way for the rise of Adolf Hitler and National Socialism. After several years of rising prices — the result of years of printing ever-increasing amounts of paper money — the nation's economy was being destroyed. The cost of living in 1920 was 12 times what it had been in 1914.

By January 1923, an American dollar (which itself had lost purchasing power as a result of the U.S. government's own inflationary practices) could buy someone 17,000 marks (the German currency). But it would get worse — much worse. By July, that same dollar would reward the buyer with 353,000 marks, and then, just one month later, in August, it would take 4.6 million marks to obtain one American dollar.

In September, the value of the mark had sunk even lower, and it now took nearly 99 million marks to obtain a dollar. Just a month later, in October, a person would need 25.3 *billion* marks to equal one dollar, followed by an astounding 2.2 *trillion* marks in November. Finally, by December of 1923, a person with one American dollar could have purchased 4.2 trillion marks. At least that was the official "exchange rate." It's not likely that any exchanges of German marks for American dollars actually happened, as no one wanted the worthless German currency.

It is probable that few Germans paid much attention to the "exchange rate," but they knew that prices for everything were increasing astronomically: Three billion marks for a pound of meat, 50 million marks for a pound of potatoes, and even 150 million marks for one glass of beer were typical.

The actual price for any good or service was difficult to determine, because prices were increasing so rapidly. Friedrich Kroner, a German journalist, reported that a new banknote, still warm from the printers, fell in value on its way to the grocery store. Attempting to save money was futile, as its value was falling so quickly. There were reports of factory workers running with their latest paychecks to the



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gates to meet their wives, so the women could quickly make their way to the market before prices — going up several times each day — made their banknotes so worthless as to not even bother.

Fuel was so expensive that many Germans used banknotes to heat their homes or cook their food. Others used the increasingly worthless marks as wallpaper.

Barter often replaced the use of paper money, as products and services had real value, unlike the increasingly worthless banknotes. Of course, a barter economy has many limitations, among them finding someone willing to take your product or service in exchange for his product or service. The economy naturally shrinks under such circumstances. Additionally, saving, when money ceases to function as a store of value, becomes increasingly nonsensical.

It was the increase in the money supply (inflation) that was generating the dizzying rise in prices. Germany was not only printing money in larger and larger denominations, but was also printing the money rapidly, limited only by the capacity of the printing presses and the growing fatigue of the workers printing the marks. Some communities even began to print their own money.

The rapid increase in prices led to some stories that were probably apocryphal, such as the story that if one did not eat his meal fast enough at a restaurant, the bill would be higher when he finished the meal than when he ordered it.

As prices often rose faster than wages, some Germans living in port cities met the ships at the docks and took food and other related goods, such as coffee, by force. Bacon was highly prized, and many a husband literally became “the breadwinner” and the man who “brought home the bacon.” Many were prosecuted, but there were simply not enough *polizei* to arrest or deter everyone inclined to steal. Fights and gun battles were not uncommon.

Adam Fergusson, author of *When Money Dies: The Nightmare of Deficit Spending, Devaluation, and Hyperinflation in Weimar Germany*, wrote, “Petty crime, the crime of desperation, was flourishing. Pilfering had of course been rife since the war, but now it began to occur on a larger, commercial scale. Metal plaques on national monuments had to be removed for safe-keeping. The brass bell plates were stolen from the front doors of the British Embassy in Berlin.” Foreigners living in Germany were special targets of thieves, and “petrol was syphoned from the tanks of motor cars.”

Producers often could not even sell their goods at what buyers were able to pay, because they would be selling their goods at a loss. This is an example of why price controls are not the solution to rising prices caused by monetary inflation, as those with something to sell cannot sell their goods or services at a loss and stay in business very long. But desperate people, usually ignorant of economic reality, will do desperate things.

Mass starvation was a looming reality by the last months of 1923, and malnutrition was a major cause of an increase in cases of tuberculosis. By the summer of 1923, nearly two-thirds of East Prussian schoolchildren were under observation for the disease.

The British ambassador to Berlin, Edgar Vincent, 1st Viscount D’Abernon, observed the horrific conditions generated by the hyperinflation, writing, “It is hardly to be wondered that a great deal of discontent prevails. It is vexatious enough for a foreigner to be asked for a green fee at the golf course of one million marks, but he can console himself that in his case it amounts to about a shilling. The unfortunate housewife charged similar rates for household articles can make no such reflection.”



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As prices were increasing so rapidly, merchants had to spend extra time with each customer calculating the newest price, leading Viscount D'Abernon to add, "To boot, [the customer] has to stand in a queue [line] for several hours to get some articles like butter."

As is the case today, those responsible for the ever-increasing prices resulting from monetary inflation attempted to redirect public anger, much as the Roman Emperor Nero redirected the population's anger away from himself toward the unpopular but growing Christian sect. The German communists naturally blamed the capitalist system, while the National Socialists (Nazis) scapegoated "Jewish financiers."

It was in November of 1923 that Adolf Hitler decided the time was ripe to overthrow the Weimar Republic and establish a National Socialist dictatorship, with himself as the leader of the party. His Beer Hall Putsch, as it was called, failed, and Hitler was sent to prison for treason, but many Germans were ready to accept a dictatorship if it would relieve them of the scourge of hyperinflation. No society can long endure what happened in Germany without the destruction of that society morally, socially, economically, and politically.

But how could this have happened? What caused this nightmare that had descended upon what had been one of the most educated and prosperous nations in Europe?

Play money: The German paper money (the "mark") ultimately became of such little worth that some put it to better use as wallpaper. (Bundesarchiv, Bild 102-00104 / Pahl, Georg)



Causes of Weimar Hyperinflation

First of all, the hyperinflation (or inflation in general, for that matter) in post-World War I Germany was not some unexplainable and mysterious thing that "just happened." It is not something that happens naturally in any free-market situation. It is always due to actions by *government*. Prices can go up or down due to certain market conditions. For example, a frost can destroy some orange groves and the resulting reduction in supply can cause a temporary increase in the price of oranges. Or, a product might become more popular, and the price will go up. A tornado or a hurricane might result in a temporary increase in the price of generators. But a general increase in prices is a *result* of inflation, not the *cause* of inflation. It has been said that as wet streets don't cause rain, neither do price increases cause inflation.



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Inflation, properly defined, is an increase in the supply of money and credit, which makes money less valuable in comparison to goods and services. Only government and its agents, such as the Federal Reserve System in the United States, can increase the money supply, and only government can create the conditions, such as deficit spending, that lead to pressure to increase the supply of money in circulation. Ultimately, the electorate chooses inflation by choosing legislators who take actions such as deficit spending, which in turn lead to pressure to increase the money supply. Unfortunately, much of the voting public has very little understanding that this is the case.

In 1896, Americans had a choice to maintain the gold standard or adopt policies that undermine sound money and cause inflation. Realizing that inflation would lead to a reduction in the value of their bank accounts, the country chose sound money rather than inflation.

It is often asserted that the reparations payments that Germany was forced to make at the end of WWI were the principal cause of the German postwar hyperinflation. Certainly, the huge reparations bill handed to Germany at the Paris Peace Conference in 1919 did not help the situation. But even had there been no reparations imposed on Germany at all, there still would have been inflation problems in Germany. This is because Germany chose to finance the war effort almost totally through deficit spending. Germany had financed its successful war against the French in the Franco-Prussian War of 1870-1871 through reparations payments on the French. As is often said, what goes around comes around.

Germany expected to win the First World War, and expected to make the French pay up again. When they failed to win, not only could they not make the French pay, but they were bound by the Treaty of Versailles ending the war to accept responsibility for war damages and make reparations payments.

Saddled with huge obligations, Germany could have at least chosen to cut back on its generous welfare programs and raise taxes, but the new Weimar government was not particularly popular after having signed the “armistice” and conceding defeat as its first real public policy. Kaiser Wilhelm II had abdicated on November 9, 1918, and the new government, created at Weimar, opted to surrender on November 11.

Rather than scale back social welfare programs, the new socialist alliance running postwar Germany opted to create an even larger welfare state, no doubt hoping to reduce the anger of the German population.

Cui Bono?

As is always the case, there are some who actually *benefit* from inflation. And those who benefit tend to have more influence with policymakers than the rest of the population. As the late historian and Georgetown University Professor Carroll Quigley wrote in his book [Tragedy & Hope](#), “The inflation was not injurious to the influential groups in German society, although it was generally ruinous to middle classes.” Middle classes tend to rely on savings, but the hyperinflation made those savings worthless. Wiping out people’s life savings by hyperinflation does not make the government in power very popular. Dire circumstances such as this make many people ready to turn to a Hitler or a Lenin.

Landowners (whose mortgages were more easily paid off with inflation) and large-business owners (whose industrial bonds were more easily paid off with inflation) tended to have no problem with inflation. Adam Bisno, in *Smithsonian Magazine*, wrote, “At the apex of the social structure, things



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looked different, with titans of commerce and industry able to avail themselves of raw materials and cheap credits to grow their businesses at everyone else's expense."

And, rather than demand that the government shut down the printing presses that were turning out more and more worthless paper money, most Germans whose lives were being destroyed by the hyperinflation agitated for higher wages to pay for the higher-priced goods. As Adam Fergusson wrote in *When Money Dies*, "If prices went up, people demanded not a stable purchasing power for the marks they had, but more marks to buy what they needed."

The aforementioned Viscount D'Abernon, seeing all of this in Germany, rightly observed, "Inflation is like a drug in more ways than one. It is fatal in the end, but it gets its votaries [those who practice it] over many difficult moments." In other words, politicians can "kick the can down the road" for the next officeholder to deal with.

All of this is not to say that the Allies, particularly the French, did not make the situation even worse. The French invasion of the Ruhr in 1923 created even more problems for the already unpopular German government. When the Germans failed to make the required reparations payments, the French army rolled in and seized natural resources in the resource-rich Ruhr region of Germany. The German response was to print even more money to "cheat" the French. But, as Ernest Hemingway later recalled, a German waiter told him, "Sure, I read the French papers. Germany debases her money to cheat the Allies. But what do I get out of it?"

Finally, American financiers got involved. The Dawes Plan — named after American banker Charles G. Dawes and largely a J.P. Morgan production — was created for the ostensible purpose of alleviating the situation in Germany. According to the plan, Germany would obtain loans enabling her to pay off her reparation indebtedness. Actually, though, after five years under the Dawes Plan (1924-1929), Germany owed *more* than at the beginning.

Quigley, in *Tragedy & Hope*, commented, "It is worthy of note that this system was set up by the international bankers and that the subsequent lending of other people's money to Germany was very profitable to these bankers."

The loans did enable Germany to rebuild her industrial system, but the system would collapse as soon as loans ceased from the United States, and the reality is that war debts were merely being shifted from one account to another and no one was getting any closer to becoming solvent. By 1931, Germany had paid 10.5 billion marks in reparations, but had borrowed a total of 18.6 billion marks. "Nothing was settled by all this," Quigley wrote, "but the international bankers sat in heaven, under a rain of fees and commissions."

The Dawes Plan was superseded by a plan credited to Owen Young (another Morgan agent). According to this plan, Germany would pay off her reparation indebtedness over a period of 59 years. In reality, the Young Plan lasted less than 18 months — until the crash of the New York stock market in October 1929 brought an end to all American loans to Germany. This then led to a dictatorship in Germany led by the National Socialist German Worker's Party and its Führer, Adolf Hitler.

When Hitler took power in Germany in 1933, one of his first acts was to repudiate all reparations payments. While the hyperinflation had not in itself created Hitler, it is doubtful that he would have ever come to power without it.



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Daily bread: A simple loaf of bread eventually went for thousands of marks, then millions, then billions, and finally trillions during the last year of the German hyperinflation. (AP Images)

Learning From the Past

The lessons of the German hyperinflation are clear, but most Americans don't learn from them. They do not place the blame for our own rising prices where it belongs — on the government policies that generate the inflation that causes those rising prices. Some prefer to blame foreigners, such as Vladimir Putin or the Arabs. Government officials sometimes even blame the American people themselves for using “excessive” quantities of foreign oil.

Domestically, far too many Americans blame the producers of goods and services for inflation. The supposed “greed” of businessmen, they believe, is the cause of rising prices, not “quantitative easing” (or whatever else government officials choose to call their inflationary policies). Some blame “speculators,” those who make investments in products and then make a profit when they sell them. Writing in *The Age of Inflation*, Hans F. Sennholz addressed the fallacy of blaming speculators for rising prices: “In the broadest sense speculation is present in every economic action that makes provision for an uncertain future. The student who studies aeronautical engineering speculates on the future demand for his services.” It could be said that a funeral director is speculating that some of his fellow men and women are going to die.

The nightmare of hyperinflation that savaged Germany in the early 1920s should provide a warning for us today. Hyperinflation has brought down other societies in history, as well. Even more moderate increases in the money supply send false signals to buyers and sellers that products are more valuable than they actually are, leading to what the great Austrian economist Ludwig von Mises called “malinvestment.” This produces an artificial boom, which leads to either the destruction of society or an economic depression.

When inflation undermines economic systems, extremists such as Hitler and his National Socialists wait in the wings. Rare is the politician who correctly diagnoses the problem as excessive government spending and resulting increases in the money supply to pay for it. More common is the politician who will use the resulting economic woes to attack our free-enterprise system, rather than the government policies that actually caused them.



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As Sennholz wrote in *The Age of Inflation*, "There is no Treaty of Versailles and no reparation payments that can be blamed for the present inflation."

In the end, Americans must see through the propaganda of those who would deflect the blame away from themselves, and vote for candidates who will end the madness of inflation.



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