



**THE DOWNFALL OF MONEY:
GERMANY'S HYPERINFLATION
AND THE DESTRUCTION OF THE
MIDDLE CLASS**

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In 1923, Maximilian Bern withdrew his life savings of 100,000 marks from his bank account in Berlin. In earlier times, the money would have been enough to fund the elderly man's retirement. But this was the peak period of the Weimar Republic's hyperinflation, when printing presses were turning out currency so fast that stores sought retail clerks with banking experience to deal with the constant changes in prices.

Thus, Bern took his savings and put it all into buying a subway ticket. "The old gentleman took a last ride around his city," recounts historian Frederick Taylor in *The Downfall of Money* — then returned to his apartment to starve and die.

Highlights of the Weimar hyperinflation are widely familiar to Americans thanks to high school history: grocery shopping with baskets full of money, the scramble of workers on payday to buy necessities before prices went up again, the burden on Germany of World War I reparations. In his new account of the period, Taylor sets out the domestic and international politics that led to the crisis and portraits of its effects in many corners of the country's life. Although sometimes overly detailed in its rendering of the musical-chairs game of Weimar politics, it gives a colorful and astute view of the era.

Germany, like Britain and the United States, had experienced significant inflation during the war. But the starting point of Germany's great inflation was the Treaty of Versailles, signed in 1919. In it, the Allies imposed reparations to cover not only damage to the territory Germany had occupied, but also the cost of waging the war and the pensions of dead and injured Allied soldiers and sailors. While the policy of the Allies was motivated in large part by vengeance, it also had an economic basis, Taylor notes: France had borrowed heavily from Britain to pay for the war, and both had borrowed heavily from the United States. France and Britain were counting on money from Germany to pay off their own debts.

The obligations imposed on Germany put its budget massively out of balance. At the same time, the government owed its citizens repayment of its war bonds. Taxation would not be enough. Inflation, which eroded the debt burden, began in earnest in 1919 and became dramatically higher from 1921

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to late 1923 (when monetary reforms finally curbed the issuance of new money). Wholesale prices increased more than fortyfold in 1922 and over 450 millionfold in 1923. Economist Thomas Sargent, now at New York University, noted in his 1982 essay "The Ends of Four Big Inflations" that at the end of October 1923, more than 99 percent of all the marks in circulation had gone into circulation that month.

One lesson of the Weimar hyperinflation, which Taylor's account highlights, is the extent to which inflation can have redistributive effects. Although inflation is commonly defined as a *general* increase in the price level, "general" doesn't necessarily mean "neutral." As in any inflation, the most obvious losers were the creditors — here, the citizens who had responded to patriotic appeals to buy war bonds. They lost everything as the value of their bonds vanished. In the same plight were the members of the middle class, both educated professionals and laborers, who had put their money in bank accounts and other supposedly secure investments.

At the same time, workers suffered as their wages quickly eroded. In theory, wages could be indexed for inflation, but in practice, workers' earnings were not fully protected from inflation for years, if ever. The double hit to savings and wages left many in a state of overwhelming crisis; for some families, this meant pushing daughters and sons into the sex trade in a quest for hard currency or tradable goods. Rural dwellers, with their access to food that could be bartered, were in a better position than their city counterparts; urban dwellers with relations in the countryside were better off than those who had none.

If there were losers from the hyperinflation, however, there were also winners. Borrowers, of course, came out ahead. Germans with access to foreign currency early in the crisis — or who were able to adapt quickly enough to gain access to it — could often live like the rich. Industrial companies enjoyed boom times from exports, thanks to the mark's declining value, and could buy factors of production cheaply within Germany.

"Slow thinking and a reliance on previous experience were punished with hunger and death," recalled a German journalist who was a teenager during the hyperinflation, "but impulsive action and swift comprehension of a new situation were rewarded with sudden, huge wealth."

Yet the greatest beneficiaries by far were the political extremists. John Maynard Keynes anticipated that Germany's experience with inflation "may disorder the minds of her working class, the source of her political stability." As the mismanagement of the economy pummeled the faith of the populace in the regular political system, the stage was set for a demagogue's rise. **EF**