Remembering the German Hyperinflation of 1922-23

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Can It Happen Here?

The $787 billion American Recovery and Reinvestment Act stimulus package passed last year pushed the annual fiscal deficit to $1.89 trillion, almost doubling the last Bush deficit of $1.02 trillion. Not that Bush has anything to brag about, the largest deficit in the Clinton years was $347 billion, and way back in the Nixon years the highest annual deficit was only $31 billion. More ominously, it looks like President Obama will chalk up another $1.8 trillion deficit this year. Our national debt is already $12.5 trillion. Yet the President is proposing healthcare, immigration, environmental, and education legislation that could send federal, state, and local government spending out of sight.

Unfortunately for the American people, federal government deficits are strongly correlated with monetary inflation and future price increases for both businesses and consumers. Growing deficits portend inflation, and the larger the deficits the higher and more dangerous the inflation is to the nation's currency and economy.

But where are all the jobs created by these federal government stimulus projects? We have an official unemployment rate of 9.7 percent. That means nearly 15 million Americans who want to work can't find a job. There are perhaps another eight million who have either given up looking for a job or can only find part-time work.

Why aren't the stimulus programs producing more jobs? The answer is that most businessmen are not stupid. Short-term stimulus money is terribly ineffective at motivating businesses to make capital investments or hire more people. Sensible business people do not want to risk their capital and overextend their hiring based on a short-term infusion of government funds. In addition, government handouts to business are notoriously political. The stimulus program has become a slush fund for rewarding Democratic friends and spending federal dollars to make sure key Congressional Districts and States are beholden to the Obama administration. Similarly, government stimulus checks sent to taxpayers, or non-taxpayers as the case may be, have only minimal short-term impact. Such stimulus gimmicks are ineffective and nothing more than vote-buying.

The tried and true formula for economic recovery and growth is to make permanent cuts in business and individual taxes, permanent cuts in government spending, and permanent reductions in government regulations, especially those that impact new business start-ups, capital investments, and employment. In regards to employment, however, immigration laws must be strictly enforced. Eight million illegal immigrants hold jobs that Americans want and need.

The Obama administration is essentially doing everything wrong on the job front and wasting billions of dollars in stimulus favors in the effort. Meanwhile, all the excess spending is creating an even more dangerous situation. A huge chunk of our $12.5 trillion national debt is owed to the Chinese and Japanese, who buy U.S. Treasury bonds. They are going to own us, unless we get our financial house in order. They have recently sent strong signals that our government spending and deficits are so out of control that they are losing confidence in the ongoing value and stability of the dollar. They are beginning to sell our debt instruments, because they fear their losses will be calamitous if the value of the dollar collapses. If the prices of all the Chinese goods in Walmart suddenly skyrocket due to a devaluation of the dollar, Americans will suddenly find themselves at a lower standard of living. People on fixed incomes will be hurt the most, but most people will be hurt badly. Some, however, will be able to pay off their debts and mortgages with dollars that are less dear.

Unless we are able to control government spending, we will soon be paying the price in painful inflation. Sometimes inflation can be so rampant that people begin to dump their cash and empty their bank accounts to buy anything that might hold its value against the rapidly declining buying power of a nation’s currency. Escalating federal spending and deficits can be a slippery slope leading to this kind of behavior. This can result in hyperinflation, where inflation is moving so rapidly that a wheelbarrow stacked with currency cannot buy an apple. Such was the situation in Germany in 1922 and 1923.

There are many frightening parallels between Germany in 1921 and the United States today. Before World War I, Germany was a prosperous industrial nation with a gold-backed currency. The Germans dropped the gold standard during the war and inflated their currency rather than place the heavy burden of the war on German taxpayers. They hoped their defeated enemies would pay off their war debt. This resulted in about 140 percent inflation from 1914 to 1918. Nations at war must maintain public confidence, and few nations are willing to risk losing that confidence and perhaps the war by imposing heavy taxes on their people. The demise of a nation’s currency, however, has been a frequent cause of losing wars.

Germany’s currency, however, began to stabilize in 1919. But by 1921, the harsh reparations payments imposed on Germany by the Allied Powers was putting a strain on the recovering German economy. In addition, the newly elected democratic socialists of the Weimar Republic had made boundless promises of social benefits, expanded education systems, higher wages, reduced hours, and more vacation. Rather than slow the economy or pay for the new social benefits, the Weimar government began to run larger and larger deficits, essentially monetizing their debt. France reacted by taking over the Ruhr to ensure that Germany’s debt payments had real value. This, of course, made things even more difficult for Germany, but the public insisted on all the new social benefits, and the ruling democratic socialists of the Weimar government kept getting elected by giving it to them. Eventually, the accumulated deficit spending resulted in higher and higher inflation. By early 1922, the Germans had slipped down the slippery slope of hyperinflation.

At first, a few people began to purchase gold, jewelry, real estate, art, and other things of more stable value than the Mark. As inflation raged, people began to buy almost anything to dump the declining Mark for something of more stable value. Prices doubled in the first five months of 1922. According to British historian Adam Ferguson, there was a huge demand for pianos, most of them bought by families with little musical interest. The government could not print money fast enough to keep up with the inflated demand.

Inflation soon reached dizzying daily increases. One story tells of a fellow who ordered a cup of coffee for 5,000 Marks. His second cup of coffee cost him 9,000 more Marks. Factory workers demanded to be paid three times a day. A German-born American told how his father had bought a 20-year life insurance policy in 1903 and made his monthly payments faithfully. In 1923, when he cashed it in, he was only able to buy a loaf of bread with it. Wives came to factories as soon as their husbands were paid and immediately spent their Marks at grocery or clothing shops. Waiting even a few hours could mean a loss of purchasing power.

Famous American writer, Pearl Buck, who was in Germany in 1923, later wrote:

“The cities were still there, the houses not yet bombed and in ruins, but the victims were millions of people. They had lost their fortunes, their savings; they were dazed and inflation-shocked and did not understand how it had happened to them and who had defeated them. Yet they had lost their self-assurance, their feeling that they themselves could be the masters of their own lives if only they worked hard enough; and lost, too, were the old values of morals, of ethics, of decency.”

People on pensions became destitute. Most people lost all their savings. The values of hard work and decency that earned these savings often perished as well. People were asked to pay one million Marks for a single egg. When the government froze rents, rental income became essentially worthless, and the value of real estate plummeted. Real estate recovered after the hyperinflation, but millions had already sold their properties at desperately low prices. In the last stages of hyperinflation, the economy itself began to collapse. When the trillion Mark note came out, it wasn’t worth your time to get change from a purchase.

On November 9, 1923, near the chaotic height of the German hyperinflation, Adolf Hitler and his fledgling National Socialist German Workers Party made an unsuccessful attempt to overthrow the state government of Bavaria.

In November 16, 1923, the German government issued a new currency called the Rentenmark, which was theoretically backed by land and industrial assets. The government also promised to stop monetary inflation. That was enough to bring a miraculous halt to the German inflation nightmare. A few months later, the new Rentenmark was backed by gold. A trillion of the old Marks could be exchanged for a single new Rentenmark.

Millions lost their savings, income, and all hope during the German hyperinflation. Many and bitter are their stories. At the root of their misery were politicians who could not say “no” to more programs and more spending. The German people were desperate for strong leadership and found it in Adolf Hitler in 1933. Twelve years later, Germany was in ruins. Can it happen here?

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