

## **WHY DID GERMANY EXPERIENCE HYPERINFLATION IN 1923?**

In 1923 the Weimar Republic experienced its biggest economic crisis yet, hyperinflation. The crisis was not created because of one event, but due to several, whose consequences escalated as the years went on. The root of the problem lay in the economic hangover of WWI as Germany lost the war and was severely in debt. The Weimar constitution prevented quick decisions to be taken and so the resolves were the 'easy way out' rather than those that would help the republic in the long-term. The invasion of the Ruhr was the last measure for the German economy, and as a result it succumbed to hyperinflation. It was unknown at the time how the decisions taken would affect Germany's economy later on, and so the government acted in the present rather than the future. However, with hindsight, it is possible to outline the lead up to the economic crisis and hyperinflation in Germany.

After WWI, the defeated Germany was in a very bad position economically. Inflation had begun during the war itself, as the government of the time funded the war by borrowing and printing more money. The government's expenditure was high and taxation low. It had been assumed that Germany would actually win the war and that peace would lead to economic stability. However, Germany lost the war and there was a need for high levels of public spending to overcome post-war social difficulties, such as the injured soldiers who needed money. Yet the defeat had reduced Germany to a poor country most of whose population was starving and in need of welfare. There was next to no money entering the economy and so the government printed more money in 1919, which caused a rise in inflation. Germany had many economic problems, which could have tested the most stable of governments, yet the nature of the Weimar Constitution affected the decisions that were taken.

The Weimar Constitution stated that the government took responsibility for assuring the basic health and well-being of all its citizens, and would provide a basic level of welfare if necessary. At the time, Germany was heavily in debt so the government was printing more money and inflation was creeping up on the economy. Since there was more money in the economy, prices went up, yet fixed wages stayed the same. The German people were encountering a problem. They were not able to buy the same items for the same amount of money. The standard of living in Germany was beginning to fall and more people needed support. Yet the government had no money to pay for welfare for such a large number of people. The government were at a loss as they felt that they could not go against the constitution so soon after it was written. The government had to try to pay these people and this affected their decisions accordingly.

Also, due to the fact that the constitution gave the right to proportional representation, coalition governments emerged in the Reichstag, which were indecisive and liable to arguments. Many of the coalitions included people of many parties and therefore it was difficult to come to a unanimous solution within the coalition, and governments were apt to only be in power for a year at maximum. This therefore impacted the decisions taken by the government. Governments were subject to seek short-term popularity, as they wanted to stay in power for as long as possible and to not anger the people so this would be feasible. Both of these reasons heavily impacted the decisions the Weimar government took in response to the inflation after WWI.

In 1919 the German government had two options in which to curve the effects of inflation. One was to cut expenditure and to raise taxes. Naturally this would have been very unpopular with the German people who had little money. Such action would have hit the industries hard so unemployment would have risen and incomes fallen. However, there would have been an increased confidence in the currency and the foreign value of the mark would have been stabilised and inflation lowered.

The other option open to the government was to borrow and print more money. This seemed much more attractive to the government as there was an acute need for money in the economy. With this method the government was able to maintain government expenditure, which meant that welfare payments would remain

and the government's economic policies would seem popular.

The government chose the easy and more favourable option, to print and to borrow more money. The problem with this was that with borrowing money, Germany fell further and further into debt. It also became imperative to feed money into the economy as the Weimar Republic was facing pressures on all sides. The victorious powers had imposed the Treaty of Versailles on Germany and were continually asking for reparations, and the people in Germany were starving as the living standard fell further. The people in Germany were receiving money through welfare yet since there was more money in the economy the prices of everything increased and the Germans could not buy what they needed with the amount of money they had. Then more money was printed and the same problem arose. Out from all the confusion emerges a vicious circle, which Germany had been sucked into. The 'easy' option caused the German mark to decrease in value, which prevented international trading with Germany as the mark, became worthless. This option did however decrease unemployment, which was acting in the interests of the people. At this time, inflation was happening relatively slowly and perhaps hyperinflation would not have occurred if the French and the Belgians had not invaded the Ruhr, looking for reparations. This helped to spark the crisis.

In January of 1923, the French and the Belgians invaded the rich industrial area of the Ruhr in Germany. This area was extremely important to the German economy, as it was its industrial heartland and the region on which the whole German economy depended. The two countries invaded the Ruhr because Germany was not paying the reparations stated in the Treaty of Versailles. In response to the invasion the Weimar government ordered passive resistance and all workers went on strike. The French and Belgians took the reparations not as money, but as goods. During the passive resistance, there was no production within Germany and there was also a massive loss of economic resources. The economy became severely disrupted and there were increased demands to support strikers and an increased number of people needing welfare. There became rapid printing of money to meet all these new demands and needs. The German economy had no means of being able to survive the invasion **and** passive resistance. All the government could do was print more money. Inflation began to spiral out of control and there was a collapse in confidence in the mark abroad and in Germany. This then led to an outbreak of hyperinflation and economic crisis.

The above shows that the crisis was not triggered by one factor, there were several. Germany experienced inflation in 1923 because it was sparked by the Ruhr invasion, but it cannot be said whether hyperinflation would not have occurred without such a trigger. At the time the Weimar government was criticised for hyperinflation, but there were other factors involved, such as French revenge for WWI and the nature of the Weimar constitution. The pressure of reparations and welfare seemed to prevent a cure from being found in response to inflation. After such a destructive war the people were looking for an immediate response to the problem, not a long-term one. The government also decided to prevent unemployment, trying to act in the best interests of the people as Germany had just been hauled through a gruesome defeat, which had stripped the country of its pride, and the people were severely wounded. However the printing of more money caused inflation. Blame for the crisis was not placed on the Imperial government, which had borrowed the money during the war, but on the Republic, which had to 'clean up' the causes of such action. Unfortunately inflation was slow to take hold in the post-war period, if it had been more apparent, it may have been conquered earlier. Although Weimar ended up surviving hyperinflation, the Republic was tarnished with its memory. The crisis became a shadow, which only took its full form during the Depression of 1929 and contributed to the death of the republic.