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Definition: **hyperinflation** from *QFinance: The Ultimate Resource*

extremely high rate of inflation a very rapid growth in the rate of inflation so that money loses value and physical goods replace currency as a medium of exchange. This happened, for example, in Latin America in the early 1990s and in Zimbabwe in the 2000s

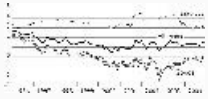


Image from: [CPI](#)

[annual percentage change. Source:...](#) in [Collins Dictionary of Business](#)

Summary Article: **hyperinflation**

From *The Hutchinson Unabridged Encyclopedia with Atlas and Weather Guide*

Rapid and uncontrolled inflation, or increases in prices, usually associated with political and/or social instability. ..xTXT:

Inflation during World War I The hyperinflation that blighted Germany between 1920 and 1923 had its roots in World War I. Prices rose by 240% between 1914 and 1919. This figure was equivalent to price rises in France and the UK, but masked more serious problems in Germany. The Germans had borrowed vast sums to fund the war. When supplies of funds proved inadequate, the German central bank, the Reichsbank, simply lent itself money and printed new banknotes. The currency was not backed by gold after 1914, so there was no limit on the amount of money that could be printed. The amount of marks in circulation rose by 300% between 1914 and 1919. This resulted in limited inflation at the end of the war, but the seeds of later problems were sown.

Post-war expenditure The new Social Democratic government of the Weimar Republic had great plans to improve the conditions of the poor in Germany. Improved education, welfare, and more jobs were promised. These were expensive programmes to deliver, more expensive than the government could really afford in 1919. To finance them the government borrowed more money and printed more currency. Prices rose by 400% between 1919 and 1920, yet the German government did little to try to stop the rise. Prices did actually stabilize after 1920, partly due to improved exchange rates. Import prices fell by 50%. However, the government did not act to stop future price rises. In fact they simply carried on printing more money to pay for the price rises. Between 1920 and 1921 the supply of money increased by 50%. At this stage a loaf of bread cost 2 marks.

The burden of reparations The shadow of Germany's defeat in World War I and the reparations demanded by the Allies hung over Germany throughout this period. Under the terms of the Treaty of Versailles (1919) following the end of World War I, Germany was forced to sign a 'War Guilt clause' and pay reparations (compensation) for the damage Germany had done to the economies and infrastructure (buildings, communication networks, and utilities) of the Allies. In 1921 the Allies presented the Germans with their demands for payment, a sum of £6.6 billion (132 billion gold marks). Germany was already in financial trouble, and the only way its government could see to pay the reparations was through the printing of more money. Without this bill, the German government may have been able to adopt a more sensible policy and avoid some of the worst effects of the hyperinflation that followed. As the defeated nation, however, the Germans had no way to avoid paying the Allied demands.

Attempts to control inflation in 1922 The impact of reparations on the German economy was

catastrophic at a time when social and political upheaval was widespread under Germany's new democratic constitution. Prices were already rising fast by the start of 1923. The number of items in the shops stayed the same, but there was suddenly more money around to spend on them, so prices started to rise. When the government printed more money to meet the new prices, the price rises began to become astronomical. In the 12 months before January 1923 prices rose to more than 75 times their January 1922 levels. A loaf of bread now cost 450 marks. The German government seemed powerless to stop the inflation. In fact they were making it worse. They tried to support the value of the mark against foreign currencies by buying German marks from abroad. By raising the demand for marks they hoped they would become more valuable and reduce inflation. This was a total failure, and merely led to the Germans spending much of their precious gold and foreign currency reserves to buy worthless German marks. The German government also carried on printing more and more money to meet the demand, which just led to higher price rises. The German government also refused to raise the interest rate for borrowing, which encouraged business people to take out ever larger loans, secure in the knowledge that they would be able to pay them back with worthless currency. This further increased the demand for money and meant more had to be printed. However, at this stage price rises were nowhere near the levels to be seen in 1923.

Franco-Belgian invasion With rising debts and an increasingly worthless currency, the Germans stopped paying the reparation payments demanded by the Allies. The response of the French and Belgians was to occupy the German industrial region of the Ruhr in January 1923. They intended to get their reparations from the German factories and mines in the form of goods and raw materials. The impact on the German economy was devastating. With the loss of so much industrial production and income the German economy faltered. This alone would have led to higher inflation, but the response of the German government made the situation worse. They organized strikes in the Ruhr, and paid the striking workers' wages out of government funds. Of course the government had no money, so simply printed more cash to pay the workers. The government employed 300 paper mills 24 hours a day to turn out the currency. As prices rose the denomination of marks on notes was changed. Notes bearing one figure were recalled to have a new figure printed on them. The government believed it had to supply the demands for more cash or the economy would grind to a halt. By October 1923 the government was printing 120,000 trillion marks a day, yet the demand was eight times the production. The response of the government was to further increase production to 500,000 trillion marks. As money became worthless so people stopped using it and began to barter for goods. The economy of Germany seemed to be collapsing, and the government was simply making the problem worse rather than solving it.

Effects on the German people In 1920 a loaf of bread in Germany cost 2 marks. By June 1923 when the hyperinflation was in full flow, a loaf of bread in Germany cost 430,000,000,000 marks. Prices rose by the hour. People sitting in bars or coffee shops found that their second drink could cost twice as much as their first. Images of the era include children using piles of banknotes as building blocks or toys, and Germans wallpapering their houses with banknotes. Workers were paid up to three times a day. The wages would be collected in a wheelbarrow and taken down to the shops to be spent as quickly as possible, before prices rose any further.

Shopkeepers found it almost impossible to make money. Unless they could spend their takings on new supplies immediately, they would be unable to restock their shops with goods. Many shopkeepers simply closed their doors, or opened as little as possible. Goods became hard to come by. Farmers

refused to bring their produce to the towns as the money they received was worthless by the time they came to spend it. There were riots in Berlin and other German cities, and some workers organized parties to go to the countryside and steal the farmers' produce out of the ground. Trade unions bargained with employers for regular wage increases, but these failed to keep pace with rising prices. At first workers believed they were doing well, but this feeling soon disappeared as they struggled to support their families. Those who were reliant on pensions from the government fared very badly. The government failed to raise benefits fast enough to keep up with price rises and pensioners struggled to survive. People with investments in bank accounts saw their value vanish overnight. Any income generated was worthless. Tax receipts for the government stopped, as people realized that they could reduce their taxes to virtually nothing to pay if they waited a few months to pay. With money increasingly worthless, the government lacked the incentive to collect taxes. By October 1923 just 1% of government expenditure was covered by taxes. To make up the shortfall the government simply printed new notes to cover the remaining 99% of expenditure.

Many Germans gained from the hyperinflation. People with property were able to ride out the storm, while those with debts or mortgages saw their value disappear and their debt payments effectively end. Businesses were able to borrow money, spend it on new machinery, and then pay back virtually nothing to the banks. Bankruptcies became almost unknown. In 1913 around 10,000 German firms went out of business due to their debts. In 1923 the figure was less than 200. The speed with which Germans had to spend their money meant that demand in the shops was actually higher than before the period of hyperinflation. In response to this companies employed more workers, and unemployment effectively ended by 1923. Banking jobs, for example, rose from 100,000 in 1913 to 375,000 in 1923. Companies opened new factories to supply the high demands of Germans desperate to part with their cash. The German government also benefited in at least one way. During World War I the government had borrowed vast sums to finance the war effort. As the hyperinflation rose, the government saw its debts being wiped out.

The solution With Germany on its knees, the government finally acted. A new centre-right government had been established in August 1923 led by Gustav Stresemann, a renowned politician of the liberal right-wing German People's Party. The German government realized eventually that it would be unable to defeat the French and Belgian invasion, and would have to accept the agreed reparations. Resistance to the French and Belgian forces was abandoned. Reparation payments were restarted, and economic stability was re-established. In November 1923 the government called a halt to new currency issues of marks. A new currency, the Rentenmark, backed by land and property was created. The new government led by Stresemann realised the mistakes made in the past and tried to solve them. Each Rentenmark was exchangeable for 1 trillion old marks with a limit of 2.4 billion Rentenmarks to be issued. The government also cut its expenditure, partly by sacking around 700,000 employees. However, reparations remained a problem.

In April 1924 the US government brokered a deal with Stresemann known as the Dawes Plan, a scheme initiated by US republican politician Charles Dawes to help Germany pay off its enormous war debts. This reduced Germany's annual payments to more manageable levels, and arranged for the Germans to receive loans of 800 million gold marks from banks and businesses in the USA and Europe. In August 1924 the Rentenmark was replaced with a new Reichsmark of equal value. The new currency had backing from gold so inspired confidence. Taxes were raised and by 1925 the German government actually had a surplus. The Pact of Locarno (1925) settled the frontiers between Germany, France, and

Belgium.

Long-term impact on Germany The hyperinflation of the early 1920s had a negative impact on the democratic stability of the Weimar Republic. Although there was economic recovery from 1924 to 1929 with the assistance of US loans, confidence in the democratic politicians who led Germany was shattered. When the USA demanded its loans back after the Wall Street Crash of 1929, the German economy collapsed again. Much of the middle class, many of whom lost everything in the early 1920s, supported the Nazis after 1929 as they had lost all confidence in the democratic politicians handling of the German economy. The workers of Germany also abandoned the democrats, moving their support to German communism. This collapse of support for democracy was not simply the result of the hyperinflation crisis of the early 1920s, but it had a major impact on the German people. With the second economic collapse after 1929 Germans no longer believed that the politicians who had led them to two economic disasters in the space of ten years were capable of running Germany. The opportunity for extreme political forces to gain power was great, with both communist and fascist parties threatening rebellion. Within four years of the Wall Street crash the destruction of the democratic dream of 1919 was complete and Adolf Hitler's Nazi state was in place.

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