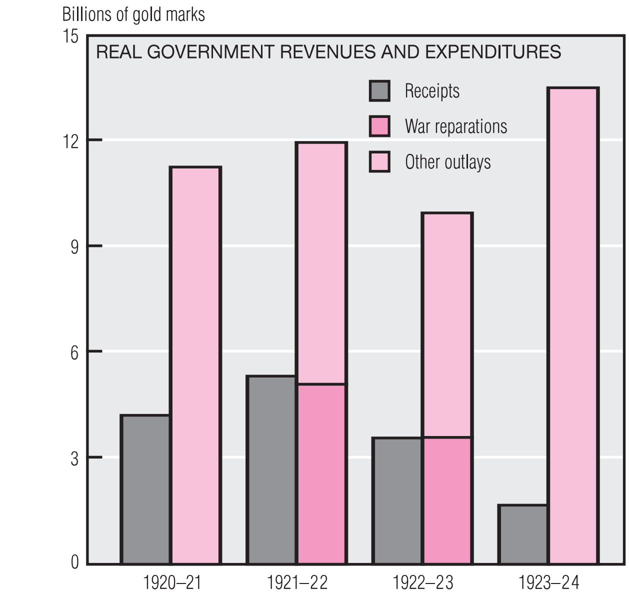
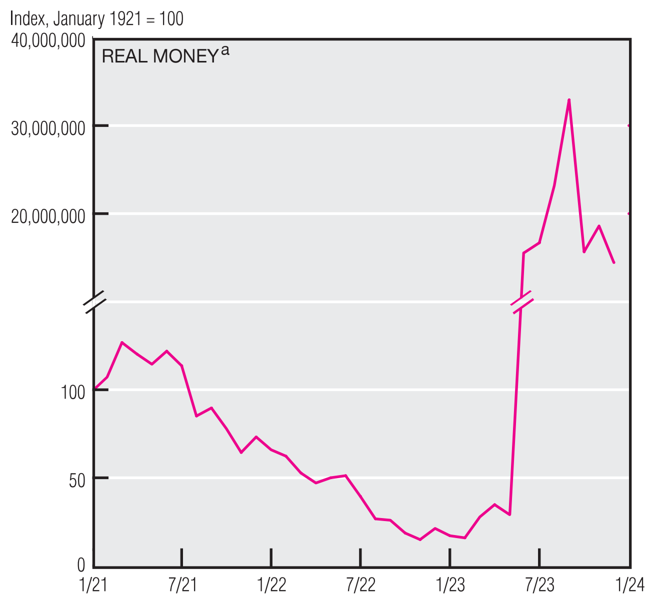
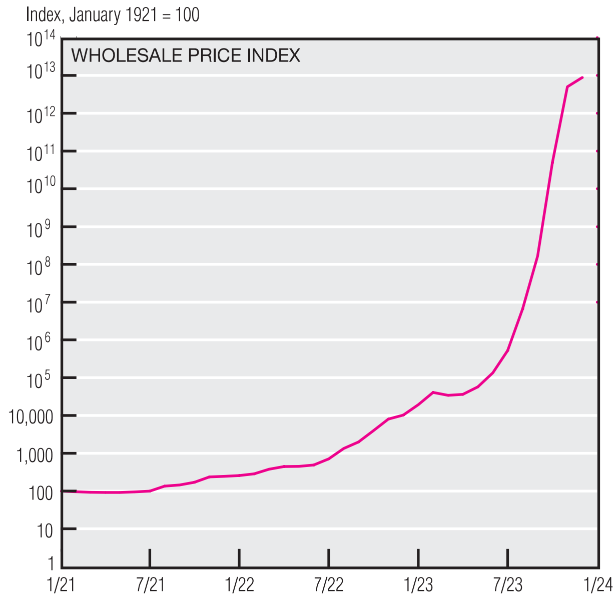
Germany's Hyperinflation, 1923



Growth in Discounted Reichsbank Bills

January 1921– January 1922	155%
January 1922– January 1923	3,410%
January 1923– December 1923[a]	6.8 (10^{15})%
January 1924– December 1924	173%





a. Fiscal reforms took place in December 1923.
SOURCE: Thomas J. Sargent, "The Ends of Four Big Inflations," in Robert E. Hall, *Inflation: Causes and Effects*. Chicago: University of Chicago Press, 1982, pp. 41–97.

In January 1923, French and Belgian troops occupied the Ruhr Valley to compel repayment of World War I debts—set at 132 billion gold marks—from a wavering Germany. Workers resisted the incursion through absenteeism, supported by German welfare payments. The nation's fiscal position had already deteriorated as the Socialist government tried to meet foreign obligations and to mend the tattered social fabric by deficit spending. An inflation tax is easy to collect and requires no parliamentary wrangling. Soon after the occupation began, Germany capitulated to the French and Belgians and the deficit ballooned further still.

The German central bank discounted enormous amounts of government treasury securities in 1922 and 1923, along with massive quantities of private commercial paper. By late 1923, the government was financing almost its entire budget through money creation. The inflation rate averaged 40% per month in 1922, then jumped to 3,666% per month in 1923, with an astounding 29,525% in October. The public responded by shifting as rapidly as possible from marks into foreign currencies and commodities. Consequently, prices rose faster than the money stock—that is, the real money stock fell.

This hyperinflation ended in 1924 following fiscal reforms, reorganization of the central bank, and relief from the crushing burden of war reparations. But the events of 1923 have continued to color German attitudes about monetary policy to this day.