

WHEN MONEY DIES

When Money Dies

The Nightmare of Deficit Spending, Devaluation, and Hyperinflation in Weimar Germany

By Adam Fergusson (1975)

Former member of European Parliament; adviser to Margaret Thatcher

Summary by Edward McIlveen, CFA

“How great does inflation have to be before a government can no longer control it?”

Adam Fergusson’s 1975 look back in economic history to the German hyperinflation isn’t what some might expect. Following its demise in WWI, Germany’s economic rebound was greatly hindered by sanctions and lost access to significant hubs of industrial shipping via key seaports. Millions were displaced while tens of thousands of soldiers returned home and needed to be put to work or just paid by the state to await work. The Rhineland was noted as being a “domain of lawlessness, anarchy and the unrestrained terrorism of armed separatist bands, occupying the town halls and, with French support, defying the police.” The scourge of inflation followed the scourge of losing WWI. No matter, the Allies demanded reparations irrespective.

With 2020 fresh in our minds, the reader will be surprised to the degree which some of the social unrest of today looks similar to that of 100-years ago. According to Fergusson, a lack of political will by the leaders of the day and moral decay accelerated inflationary trends that ultimately resulted in the infamous scenes of German citizens purchasing daily essentials with wheelbarrows overflowing with marks. Hyperinflation in Germany - and elsewhere as the stories of Austria and Hungary are briefly touched upon - forced citizens into extremes. Value was ascribed by desperation to avoid a worse experience leading to the provocative observation by Fergusson that, “A prostitute in the family was better than an infant corpse; theft was preferable to starvation; warmth was finer than honour, clothing more essential than democracy, food more needed than freedom.” Inflation destroyed confidence in the governmental system, led to a mushrooming of alternative currencies, individual states seeking autonomy, and a clash of political ideologies like communism, socialism, and fascism.

Hyperinflation reached its breaking point in 1923, some 5-years after the conclusion of WWI, as German farmers refused to sell their food to the cities exacerbating the misery as this culmination occurred at the onset of winter.

Fergusson maintains that Germany did not inflate its currency to explicitly avoid WWI reparations; inflation and the momentum behind it existed prior to the printing press going berserk. The economic incentives for the industrialists were quite attractive in supporting this policy as it encouraged devaluation bringing forth an inundation of foreigners purchasing manufactured goods and commodities. Tourism also spiked along the borders during these money printing years as foreign currencies bought a lot more than normal for the visitors and gave German citizens money that actually had real value.

The question lurking for all to consider is, “How great does inflation have to be before a government can no longer control it?” For those seeking a precise answer in the book to that inquiry, you might be left frustrated. However, a matter containing this amount of complexity can be filtered to perceive when a major problem exists. From this book, the reader can see when the “inflation monster” approaches serving as a function of the following appearing with simultaneous ferocity:

- Inflation develops a powerful lobby that has no interest in rational arguments with policymakers watching currency depreciate into oblivion but still adding to the money supply.
- Attempting to avoid unemployment and insolvency by printing more money does the opposite by bringing on more unemployment raising the risks of insolvency to new heights.

Research Review Continued

- Fear, greed, immorality, demoralization, and dishonour are ever present, but the burden on society is dominated by those forces.
- Society's attitude about government and politics sours dramatically. Fergusson noted, "Contempt for the Republic and its servants now became almost universal" and "...in German minds democracy and Republicanism³ had become so associated with financial, social and political disorder as to render any alternatives preferable when disorder threatened again."

The turnaround for Germany involved foreign intervention in supplying loans, the creation of another federal bank which was more of a psychological move to invoke confidence, and food returned to the cities as the farmers regained confidence that the currency they accepted could be converted into something of value.

The reclaimed normalcy of life, however, quickly led to the moral mobilization that brought the Nazi party to power and an all-out quest to avenge the Treaty of Versailles via a revitalized war machine.

Fergusson also asserts that inflation is the ally of political extremism and the antithesis of order believing that inflation was used in Russia and Hungary to destroy social order and spark revolution. While hyperinflation hasn't hit a major economy in years, the reader of *When Money Dies* can see parallels from 100-years ago that lead to thought-provoking if not frightening realities to consider for today.

Summary

- *Following its demise in WWI, Germany's economic rebound was rocked by sanctions and demands of reparations by the victorious Allies.*
- *Mass unemployment and economic stagnation brought about a colossal amount of money printing.*
- *Hyperinflation in Germany reached its breaking point in 1923, some 5-years after the conclusion of WWI.*
- *The turnaround for Germany centered on foreign loan assistance, but the reclaimed normalcy of life quickly led the Nazi party claiming power amidst the quest to avenge the Treaty of Versailles by revitalizing the German war machine.*

³ Republicanism refers to a form of government and not a political party.