Volume 6. Weimar Germany, 1918/19–1933
Rolf Wagenführ on the Inflation Boom (1932)

In the face of the immense economic and social challenges of the immediate postwar period – which included the reversion to a peacetime economy, the demobilization of the members of the armed forces and their reintegration into the workforce, the settlement of war expenses and war related-burdens – an inflationary policy, as opposed to a rigid deflationary one, appeared to the Reich government and the Reichsbank as a rather viable option. Additionally, sinking production costs and a weak German mark gave German exports a competitive advantage. It was only after the currency devaluation accelerated into hyperinflation starting in June-July 1922, and only after this led to intensely negative consequences during the crisis year of 1923, that a consensus was reached on stabilizing the economy. This consensus allowed for currency reform through the introduction of the Rentenmark and the Reichsmark. In this retrospective account from 1932, the statistician and economist Rolf Wagenführ, who then worked for the Berlin Institute for Economic Research, described some of the positive effects of the inflation and identified the point at which it led to crisis.

German industrial production reached its low point in 1919. From 1919 to 1922 productive volume increased by more than ninety percent: if in 1919 production amounted to only about thirty-seven percent of the prewar level (within former national boundaries), in 1922 as much as seventy-one percent of prewar production had already been attained.

[. . .]

In general the inflation had a favorable effect on entrepreneurial income, while the effect on workers' income was unfavorable. Neither wages nor salaries, especially since 1921, were able to keep pace with price increases. The wage bill in industry therefore fell proportionately farther and farther behind; an ever larger share of the net industrial product was not available for distribution. [. . .] Moreover, industry, like other economic sectors, was relieved of interest costs and amortization requirements by the progressive currency devaluation. The financial resources previously reserved for these purposes—which, under normal market conditions, were by no means certain to redound to the benefit of industry's physical plant—could from now on be invested in those plants directly.

In addition, the financial requirements of public bodies were met to an increasing extent by taxes levied at the source, which were less subject to currency devaluation than other taxes. Therefore the share of entrepreneurial income diverted to tax payments steadily declined; these unpaid taxes were also free for investment purposes.

Even if voluntary saving was steadily declining in significance, forced saving in connection with income fluctuations emerged increasingly into the foreground. “The bulk of the population no doubt devoted a greater share of its income to consumption purposes; but only a much smaller share of the total national income ever found its way into the hands of the consumers.”

The rapid increase in investment activity was reflected on the side of production. If one takes 1919 as a starting point, then the number of ships built, for example, more than tripled by 1922, the number of newly built dwellings increased by a factor of 2.5; iron and steel production more than doubled and metalworks production enjoyed nearly an equal increase. The rise in production from 1919 to 1922 in the production-goods industry as a whole totaled approximately 100 percent.

The production of consumption goods did in fact rise between 1919 and 1922, but the increase here totaled only sixty-nine percent. Particularly small was the increase in the food and luxury industries, which were nearly completely dependent on the dwindling purchase power of the domestic market. The increase in textiles and the group of leather-processing industries was somewhat larger; but the proportion of such goods exported may have risen from year to year.

In general, developments in export during this phase of the inflation were relatively favorable. Compared with the prewar period, the cost of raw materials to industry rose less sharply in Germany than in France, Great Britain, or the United States of America. Even if the marginal difference decreased to Germany’s disadvantage over the years, the low German price level continued to provide an important stimulus to export for a substantial period.

The export quota of German industry in 1921–1922 was even higher than in the year prior to the war.

In the autumn of 1922, there was a clear turn for the worse. The inflationary tempo picked up. With the increasing rate of monetary turnover, the turnover itself—calculated in gold—declined noticeably. In the course of 1923, cash reserves everywhere sank to an intolerable minimum.

At the same time, the hypertrophy of the commercial and banking apparatus became increasingly blatant. While the number of industrial workers had not yet reached its prewar level, the number of bank employees had tripled in comparison to 1913. The number of active accounts at the three big D-banks (Deutsche Bank, Dresdner Bank, and Darmstädter und Nationalbank) grew five-fold in the same period. Commercial enterprises and banks made up an increasing proportion of the existing stock companies (1919: sixteen percent; 1923: twenty-two percent). Industry was increasingly burdened by administrative costs because an ever greater number of employees were required to manage firm accounting chores.

That forced saving also began steadily to lose significance at this time was particularly disadvantageous for production. In 1920 and 1921 it had been possible to refinance continually industrial-commodity production through the effects of income fluctuations. To the extent, however, that all cost elements necessarily conformed to the currency devaluation (the transition to the gold standard), inflation no longer had a stimulating effect on commodity production. The stimulus was definitively lost as the workers then succeeded in bringing wage increases into conformity with the progressive currency devaluation. “From this moment on, there was no longer anyone onto whom the burden of the inflation, that is, the substantive loss it caused, could be transferred.”

From autumn 1922 industrial unemployment, which had steadily declined up to that point began to rise again. Opportunities for temporary work also began to shrink considerably.

In the context of the rise in production costs, the cost advantage relative to other national economies slowly but surely eroded.

Up until autumn 1922 exports, compared to the corresponding periods of the previous year, rose steadily. Beginning in August 1922, however, a contraction began; by the summer of 1923, exports amounted to only slightly more than a third of the previous high point.

[. . .]

Given the general regression—which necessarily accompanied inflationary developments—the results of the Ruhr invasion could only be catastrophic. One of the most highly-developed industrial sectors was removed from the overall structure of the national economy; exchange among the individual regions came to a complete stop. A portion of Ruhr industrial production was shut down entirely so that supplies of important raw materials (coal, iron, chemical products) to unoccupied Germany were threatened; conversely, goods otherwise sold in the Ruhr district (construction materials, wood, consumer goods, and agricultural products) encountered the predictable sales blockages.

As a whole the volume of production from 1922 to 1923 declined by a good third, returning it to a level below that of 1920. The production-goods industries were especially hard hit, with the decline in some areas amounting to as much as fifty percent. At the same time the production of consumer goods contracted by twenty-seven percent. The inflation boom had turned into a crisis.

[. . .]

Source of English translation: Rolf Wagenführ, “The Inflation Boom,” in *The Weimar Republic Sourcebook*, edited by Anton Kaes, Martin Jay, and Edward Dimendberg.

Source of original German text: Rolf Wagenführ, "Die Industriewirtschaft: Entwicklungstendenzen der deutschen und internationalen Industrieproduktion 1860-1932," *Vierteljahreshefte zur Konjunkturforschung*, Special edition 31. Berlin: Rainer Hobbing Verlag (1932), pp. 25-27.