

## Principles of Macroeconomics

### **The German Hyperinflation of 1923**

In the United States, inflation rates have usually stayed in the single digits. We have had brief periods of higher inflation during peacetime and significantly higher rates of inflation during wars, especially during the Revolutionary War and during the last months of the Confederacy. During the Revolutionary War, inflation eroded the value of the Continental Dollar to the point where the expression: “Not worth a Continental!” became synonymous with worthless.

Occasionally, the world has witnessed incredible episodes of inflation called “hyperinflations.” While there are no precise criteria for determining when high inflation becomes true hyperinflation, annual rates of inflation measured in more than four digits is probably a minimum threshold. Hyperinflations have been rare and have usually been associated with wars, post-war chaos, revolutions, civil disorder, or dislocation. Some modern hyperinflations include: Russia in 1911-16; Germany in 1923; Hungary in 1939-45; China in 1946-48; Bolivia in 1985; Peru in 1987; Poland in 1989- 90; Argentina in 1990-91; and Russia in 1992-95. It should be easy to see the common denominator in most of these cases. Not included in the above list are the more common endemic inflations that have often occurred in South America and the Middle East. These prolonged periods of triple-digit inflation are more numerous and less dramatic and always stem from ongoing monetization of debt and excess money creation.

Hyperinflations are not very different from more normal episodes of inflation, except by degree. That is what makes hyperinflations so interesting and instructive; they serve up inflation on such a monumental scale that every aspect of inflation is highlighted and played out in full view. The characteristics and costs of inflation are the same at a 5 percent rate of inflation as at 5,000 percent. But with single-digit inflation, most people could easily miss the loss of purchasing power or be unaware of the redistribution of income or miss the costs imposed by inflation. However, it is impossible to live through hyperinflation and miss or ignore it. During hyperinflation, every aspect of inflation is constantly thrust in your face.

#### **By the Numbers: The German Hyperinflation**

The following tables chronicle the major features of German Hyperinflation. Note how this episode is consistent with the Quantity Theory.

**Table 1**  
**German Inflation**

<u>Period</u>	<u>Percent Change in Prices</u>
World War I (1914-18)	150 %
1919	200 %
1920	100 %
1921	150 %
1922	1,300 %
1923*	1,000,000,000 %

\*January through October only.

**Table 2**  
**German Money Supply**

<u>Year</u>	<u>Marks in Circulation</u>
1919	35.7 billion Marks
1923	180,000,000,000 billion Marks

**Table 3**  
**German Wage Index**  
1914 = 100

<u>Year</u>	<u>Index</u>
1914	100
1919	81
1920	N.A.
1921	89
1922	68
1923	65

**Table 4**  
**German Unemployment**

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