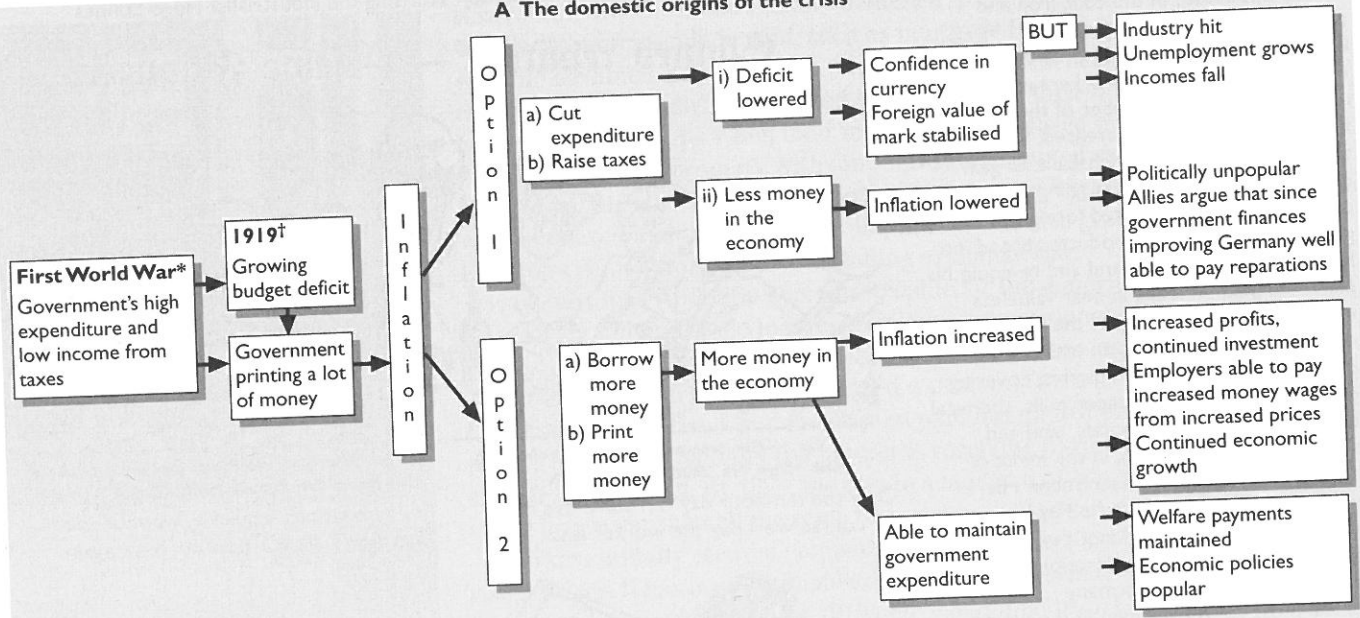


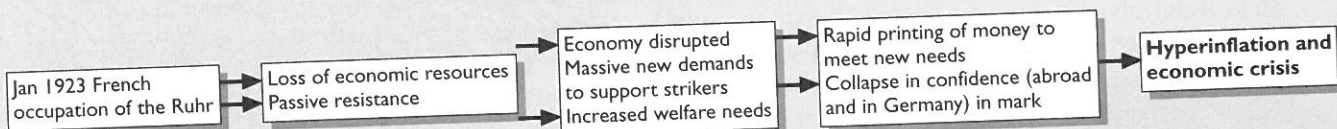
2F The inflationary crisis 1923

A The domestic origins of the crisis



The government chose option 2. Initially, inflation had economic and political benefits. However, by 1923 it had reached such levels that the whole economy was disrupted. Why did this happen?

B The causes of the hyperinflation crisis of 1923



Inflation and Reparations

Contrary to what many historians say, the government did not encourage inflation in order to be able to pay off reparations in devalued marks. Reparations had to be paid in goods, gold or foreign currency. However, rising inflation did lead to a lack of confidence in the German economy which could be used to argue that Germany was unable to pay reparations.

* Government did not fund the war mainly from increased taxation, but by borrowing and printing money

† New, insecure democratic government lost major raw material and population resources. It also faced extra financial demands, e.g. war pensions, extended welfare, reparations

The causes of inflation

Many people, both at the time and later, blamed the Allies for causing the hyperinflation crisis of 1923. Chart 2F, however, tries to show how the French occupation of the Ruhr was only one factor, exacerbating an inflationary problem that had its origins in the German government's actions in the First World War. Then, from 1919, Weimar governments faced a growing budget deficit. There were two broad policy options, the tough policies of Option 1 in Chart 2F or the more attractive, but inflationary, policies of Option 2. The insecure Weimar governments opted for the second approach. This contributed to the hyperinflation crisis of 1923.

ACTIVITY

Match up the methods with the disadvantages of each method of funding the war.

Method	Disadvantage
a) Raise taxes	d) Causes inflation
b) Borrow money	e) Politically unpopular
c) Print money	f) Leaves government with a large debt