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**Germany: (1) As to inflation of currency + disposal of Marks
(2) Finances of Inter-allied Commission of Control (03.02.1920)**

Memorandum

Bearbeitet von: Roman Köster

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Formalia:

Maschinenschriftliches Memorandum

Regest:

Das hier präsentierte Memorandum ist eine Analyse der deutschen Währungssituation Anfang März 1920, nachdem die Mark in den vorangegangenen Monaten einen starken Verlust ihres Außenwerts erlitten hatte. Der Text beschäftigt sich mit der Frage, wie die britische Rheinarmee mit ihren Markbeständen umgehen sollte - wobei diese Form der spekulativen Militärfinanzierung durchaus bemerkenswert erscheint. Wesentlich ist aber vor allem die zugespitzte Analyse, warum eine Stabilisierung der Mark nicht zu erwarten stand: Die Inflation wirke als eine Exportprämie und die sozialen Verhältnisse in Deutschland erlaubten keine Stabilisierung, die üblicherweise mit starken Reallohnsenkungen und weiteren hohen sozialen Kosten einherging. Der Autor geht an einer Stelle sogar soweit (Punkt 13), die Inflation als bewusste Strategie der deutschen Regierung zu betrachten, um ihre Auslandsschulden loszuwerden (was bekanntermaßen nicht funktionierte). Auch wenn die These einer "absichtlichen" Inflationspolitik von der Forschung zumeist abgelehnt wird, so ist die Herausarbeitung der Systemdynamik, die in den Folgejahren zur totalen Zerrüttung der deutschen Währung führen sollte, in der vorliegenden Quelle bemerkenswert.

Assistant Financial Secretary, War Office.

3 MAR 1920

With reference to your letter 57/GN/60 F.I. dated January 1920.

1. When the Ministry of Munitions took over the sale of surplus stores here in June they obtained Treasury authority to dispense with the stipulation, upon which I had previously insisted, that all substantial sales should be for sterling and not for marks. For auctions particularly this stipulation was difficult to apply without seriously impeding the sales.
2. At first the result was merely to diminish and then to end our drawing upon the German Treasury for Marks, but in September the flood of Sales Marks[sic!] left us with over 80 millions surplus to our requirements. At the same time the reduction of the Garrison diminished our opportunity for converting these marks to sterling by the payment of personnel. The question of the investment of this surplus has already been dealt with in separate correspondence, and I believe, has been submitted by the Ministry of Munitions to the Treasury.
3. Although the disposal of these marks is primarily a matter for that Ministry the subject of your letter under reply "purchases abroad" gives us again an interest in it which seems worth considering and representing to them and to the Treasury.
4. First as to the future of the mark: the position has been as follows. When the mark progressively depreciated to about 70 in midsummer the general impression even among the local bankers was that recovery to something like par value was only a matter of time and that the mark was therefore an excellent investment at that time. Messrs. Cox & Co's local Manager took every opportunity of impressing this on Officers and of setting them

against the official limits on the cashing of cheques imposed by G.H.Q. on my advice. Personally I was puzzled at first as to why the depreciation was not already much greater, the Reichsbank Statements in the *Kolnische Zeitung*[sic!] indicated that the relative inflation of the paper currency in the two countries alone should have led to a greater depreciation of the exchange. The main explanation was that large quantities of the notes included in the total issues figures are held outside Germany – in addition to private holdings of this kind[2] 7 ½ thousand million are held by Belgium and 2 ½ by France, being German notes which were circulating in the occupied districts at the time of the Armistice.¹ Since then these outside Holdings have been largely increased by further private investments; and the total amount is now probably not far short of 20 thousand million, and tends to increase more rapidly as the mark depreciates.

5. In my memorandum on the mark exchange in May last I endeavoured to set out the principal factors affecting the exchange, but was unable to express a definite opinion as to whether it would in the immediate future go higher or lower. It seemed clear that the mark must depreciate heavily as soon as the German taxation, promised for the autumn², and the Reparation payments came into force. But in the meantime in view of the bankers confidence in the floatation of loans etc., it seemed quite possible that mark values might improve for a time, especially as the widespread belief in the recovery of the mark was leading to a great amount of purchase of marks as an investment by those ignorant of the real situation and by speculators.

6. It is now possible to form a more definite opinion on the possibility of a real recovery of the mark, as the strength of some of the factors enumerated in my memorandum of May has now become more definite, particularly of those which depended upon the policy adopted by Governments and financiers.

7. The *Kolnische Zeitung*[sic!] ceased to publish the Reichsbank statements after July. Those last published showed about 1,600 million marks additional issue as compared with June. In another German paper a statement is given in what appears to be an unofficial form that the total issues are now about 48,000 million as against 42,000 Million in July, a further increase of 6,000 Million.

8. Wages of unskilled labour in our Zone were 63 marks a week a year ago. By July they were 94, in November 122, and now are 191. It does not take long before wage increases are reflected in increased prices, and these necessarily mean further issues of paper to finance them. Taking 12,000 million as the quantity of marks outside Germany in July, leaving 30,000 millions inside. A further 6,000 million is 20%. Wages[3] in July were 94 and in October 122, an increase of about 20%. The recent increase has been an advance of 57% on the October wages, and it seems to me will have to be followed by a similar increase of the rate of inflation.

9. Further as mark depreciation stimulated the export from Germany of goods that thereby became cheap, the German Government instead of leaving the economic position to work itself out naturally to a position of relative equilibrium, have circularised manufacturers and dealers in articles open to export instructing them to put up their mark export prices to correspond with the depreciated exchange. In this they profess to be falling in with the foreign desire to avoid the dumping of goods at unduly cheap prices. In reality their motive is to prevent the foreigner from taking their goods and yet raising for them only a small sterling credit. The German merchants who would in any case have been quick to raise their prices in response to the increased demand have in this way been forced to raise them even more than they otherwise would have done. The net effect in practice is to accentuate the rise in prices and check exports.

10. The ships continue to arrive in Germany full, and go away mostly empty. Ever since the armistice the barges on the Rhine have come up from Rotterdam with their footboards awash, and gone down with them high and dry. So long as that continues investment in marks by foreigners is the only substantial support to the international value of the mark. The old method of adjusting adverse foreign trade balances by the movement of gold is no longer possible. The gold currency bases have been lost and the remaining gold in Germany is in any case wholly inadequate. And, apart from speculative currency investors, even a small adverse balance

1 Hier geht es um den Sachverhalt, dass die Deutschen in den von ihnen besetzten Gebieten in Belgien und Frankreich die Mark als offizielles Zahlungsmittel eingeführt hatten. Das führte zwischen Deutschland und Belgien während der 1920er Jahre zu intensiven Verhandlungen über eine Entschädigung, weil belgische Produzenten, die in Mark bezahlt wurden, ihre Waren infolge der Inflation gewissermaßen umsonst abgegeben hatten. Eine Einigung zwischen Deutschland und Belgien über eine Entschädigung erfolgte schließlich erst im Jahr 1929. *Wee, Belgique*.

2 Gemeint ist die angekündigte Erzbergsche Finanzreform, die insgesamt zu einer stark erhöhten direkten Besteuerung im Vergleich zur Vorkriegszeit führte. *Feldman, Great Disorder*, 160–166.

may cause a considerable depreciation. The bills on one side fail to meet those on the other; and in the resulting scramble not to be left out competition may depreciate the rate out of all proportion to the discrepancy between the two sets of bills. It is[4] like a game of musical chairs. The present balance of trade is enormously against Germany³, and the patient faith of speculators in the industrial merits of our late enemy has suffered some rude shocks in the persistent fall of the mark values, and recently in the lucid if exaggerated exposition of the general economic position by Mr. Keynes.⁴ The result has been a sudden further collapse from about 200 to nearly 400 in a week, and though this has been followed by a temporary reaction to 290 the fall in value will inevitably continue, if as seems certain the adverse trade balance and further mark currency inflation continue. Trade and speculation determine current rates of exchange, but relative inflation fixes the limit beyond which the exchange cannot improve.

11. This general position would exist for the time being even if the Peace Treaty had made provision for the mutual wash out of debts instead of the imposition of indemnities. It is so far a result not of Germany's future clouds but of the past five years. Hundreds of millions of people in Europe have been cut off from most of the rest of the world for five years, and have used up all their resources in making war necessities instead of marketable goods. Now they are competing for the food, necessities and raw materials of the world, and have no substantial stocks of their own goods to offer in exchange. Their desperate material position was a main factor of their defeat, and now leave them for the time being impotent in international trade, assisted only by foreigners who from ignorance of economics are led to invest in their currency.

12. The inflation of currency in Germany has already gone on to such an extent that deflation would in any case be impossible for a great many years.⁵ When a Government prints and pays out paper notes without a gold backing it obtains goods and services practically free of cost. The burden of the provision of these is distributed over the whole population of the country in the form[5] of the constantly diminishing value of the currency in their possession. As a form of taxation it is vicious in that it falls heaviest on the poorest members.⁶ Increases of wages inevitably lag behind the depreciation, and the possessors of fixed incomes are without any remedy at all. To deflate the currency the opposite process is necessary. Borrowing only postpones the trouble. Extra taxation is necessary to enable the cancellation of notes to take place, and at the same time wages must be forced down. The extra taxation is difficult to impose on the top of that already necessary to pay expenses and interest on national debt, and trade unionism will impede the lowering of wages. Moreover deflation increases the burden of the national debt; inflation decreases it. Deliberate and substantial deflation is therefore in present circumstances difficult to effect even in Allied Countries, and would, in any case only add to the national burdens in other ways. In the case of Germany it would also add enormously to the present value of the foreign holdings of marks. If they are at present worth £50. millions, deflation to peace level would increase their value to £ 1000 millions.

13. Germany is not likely to have any such intention. On the contrary it is more than probable that systematic inflation has been adopted as a deliberate policy to reduce her foreign indebtedness and her national debt and at the same time stave off her present financial straits. No return to the old peace standards is likely to be contemplated. The internal depreciation is already probably tenfold, and the mark has already stepped into the place of 10 pfennigs. The only question, it seems to me, is whether they intend to continue the process until it represents 1 pfennig only. Then it would only be necessary to abolish pfennigs and replace the old mark by a new denomination, call it a cental – the eventual gold coin to be worth 20 centals each worth 100[6] marks, and to contain the same amount of gold as an English sovereign. No alteration of prices even would be necessary.

3 Eine seriöse Außenhandelsstatistik existiert für die Jahre der Inflation nicht, weshalb die hier angestellten Behauptungen zumindest spekulativen Charakter tragen. Trotzdem ist - auch angesichts der Verpflichtung des Deutschen Reiches zu Reparationslieferungen - ein Exportüberschuss durchaus wahrscheinlich. *Hesse, Exportweltmeister*, 75–88.

4 John Maynard Keynes Weltbestseller "The Economic Consequences of the Peace" hatte argumentiert, dass Deutschland durch die Reparationen überfordert würde und ein neues Arrangement für eine wirtschaftliche Nachkriegsordnung notwendig sei. *Keynes, Consequences*.

5 Diese Behauptung wird durch die historische Forschung gestützt. Vgl. *Holtfrerich, Inflation*.

6 Es ist ein wichtiger Aspekt von Inflationen, dass sie tatsächlich als eine Art Steuer wirken, in dem sie die Lebenshaltungskosten verteuern. Auch die während des Krieges gezeichneten Kriegsanleihen stellten also angesichts der Inflation im Grunde eine Steuerfinanzierung der Kriegswirtschaft dar. *Teupe, Zeit*.

Or a new type of mark note instead of the "cental" might be adopted, Then the par value of the mark for the future would be 2,000!

14. The holdings of marks by France and Belgium were disallowed by the Peace Conference as Reparation. They had been imposed upon the inhabitants of the occupied districts, and as a result Germany forced from them goods and services to a corresponding extent. Their loss was analogous to loss in destruction of buildings and goods, since the latter is in justice due from the state if it can not be obtained from the beaten enemy. In order to reduce the total bill they were, however, cut out, leaving them a menace to German finance,[sic!] In my memo. on the mark in May last I referred to this as one of the main factors of the situation, and remarked that the result was to "make Germany the financial bondslave of little Belgium, who was wondering what to do with her victim". Belgium instead of using the notes to buy goods in Germany and cutting her loss, has been wondering ever since, and her victim has been steadily escaping her clutches by depreciating the value of her holdings.

15. The question may arise "will not the floatation of loans to Germany cause a rapid appreciation of the mark exchange value". The answer to this seems clearly that any financial loan employed to influence the exchange would have this effect, and the money would largely pass into the pockets of all the foreign holders of marks who then realized their holdings; and when the loan was exhausted the rate would depreciate further than ever. Any loan likely to be effected will almost certainly take the form of food and raw materials to be paid for by a lien on the exportable products of the country – a species of barter. This in effect will amount to a set off of certain future imports against certain[7] future exports, and will leave all other imports and exports, which are left outside such arrangements, to the normal operation of the exchanges. The value of the mark in its present form will remain affected by the factors mentioned above.

16. Currency inflation, the perpetually adverse balance of trade, and the outside holdings of mark notes, therefore, quite apart from the Peace Treaty, give no reason to suppose that an official surplus of marks will do anything but depreciate in value. I am therefore taking steps to sell the marks arising from the sales by the Army of the horses now being demobilized, and have pressed the Remount authorities to obtain sterling whenever they find it possible. I wired you to this effect last Thursday and as no instructions to the contrary have been received I am converting up to 3 million marks at 360–336 to the £ today (Tuesday 3-2-20) – the rate is steadily going against us.

17. There will remain the surplus marks belonging to the Ministry of Munitions. Some are with the Cashier and others on deposit in a bank. Although they are not the responsibility of the War Office perhaps if my views above as to the economic and financial position are accepted, the Ministry may wish to have them sold as early as possible. Messrs. Cox & Co. tell me they can place 5 millions at a time in London without materially affecting the rate. But I think the sales must be effected without any delay, if serious further losses are to be avoided. Large quantities could be sold quicker in London by the Ministry direct.

18. Further, I would suggest that instead of selling in Germany (except on lines indicated in paragraph 21 below) we ought from the financial point of view to buy. The Ministry have[sic!] set up an organization which is now closely in touch with[8] a good deal of German commercial life; and, at any rate if strengthened by technical experts, this organisation could probably be turned on to buying for many Government requirements very profitably. The policy I advocate is to sell our stocks of marks at once, and then take advantage of the cheapness, which is temporarily increased after each sudden fall in mark exchange values, to buy stores converting sterling to marks only as and when required. If we do not buy from Germany to supply our needs we cannot as a nation sell to her. Particularly is the case a clear one in articles in which British manufacturers are making excessive profits.

19. Nothing in this memo.[sic!] should be taken as strengthening the view that Germany is heading for bankruptcy and will be unable to pay Reparation on a large scale. What I have indicated is the practical certainty of the permanent debasement of the present form of currency. It will eventually be re-formed out of the ashes of the past, and a temporarily debased currency does not connote of itself national bankruptcy. The certainty of some theorists that the present financial chaos will, unless it is artificially righted, cause a European catastrophe has, I think, no more solid foundation than Norman Angell's economic proofs that Armageddon could not

occur without immediate collapse.⁷ Waging war and its continuance depend not on finance, but on the men and materials available on each side. Similarly reconstruction after the drainage of war depends on the basal facts. Germany has the men, the factories and the organization, and when her direct needs of food and raw material have been met she will, if allowed a respite, recover more rapidly, than seem at present possible. Prohibition of luxury consumption, compulsory luxury export and a system of loans for food and raw material backed by a lien for export on manufactured products would go far to pull her through her[9] difficulties. Currencies can no longer be taken as indices to the basal facts, and remedies merely affecting the former will be worse than useless.

20. This memo. has necessarily been written in the pressure of other official work, and it does not pretend to cover the whole ground and the trade figures are not available to me. But I would gladly come to London if you wish to discuss further before the decision is taken one way or the other as regards the sale of the marks accruing from the Ministry of Munitions sales.

21. It seems to me that as regards sales of horses by the Army at any rate we ought not to hold marks in the hope of a rise in value, but rather to watch the current rate of exchange and decide whether to sell in Germany or elsewhere according to whether the mark price offered gives us a sufficient price in sterling, all things considered, if converted commercially at once. Holding the marks is a gamble by the Government, and if the conclusions of this memo. are[sic!] at all sound it is a gamble with the dice loaded against us.

22. As a result of my action this week we have got £3,550 paid by the purchaser in sterling for 100 horses others for which the Remounts officer was unsuccessful in obtaining sterling we are realizing about £30 average for horses and mules by selling the marks. In selling I have obtained offers from three British banks and accepted the lowest. German banks are not buying sterling more than they can help at the moment.

23. Will you please wire if you disapprove of the policy followed in regard to the horse sales. If you approve I propose to systematise the method of selling more than has been possible in the hurry to take advantage of the present favourable rate.

(Sgd.) S. Goffin,
Financial Adviser,
G.H.Q.
Cologne

3rd February, 1920 British Army of the Rhine

Copy sent to D. Nezman, Esq., C.B.T. Ministry of Munitions

⁷ Norman Angell hatte in seinem Werk "The Great Illusion" von 1909 argumentiert, dass ein langer europäischer Krieg aufgrund der Belastungen für die Wirtschaft und die Störung der globalen Arbeitsteilung nicht möglich sei. *Angell, Illusion.*