

The German Hyperstabilization of 1923

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Abstract

The most famous of hyperinflations and hyperstabilizations is the German experience in the early 1920s. Famous, but not always well understood. This paper attempts to throw some light on what seem to be neglected aspects of the successful 1923 hyperstabilization that is now completing its 100th anniversary. Neglected aspects and neglected persons, notably Karl Helfferich, the almost forgotten architect of the monetary reform. The reform that he suggested was different from the then prevailing orthodoxy, fixated on the gold standard, that had been suspended during World War I, and that countries eagerly and mistakenly sought to reestablish as soon as possible in the early 1920s. The assessments of other contemporary economists, including John Maynard Keynes and Hjalmar Schacht, are also discussed, and contrasted with the approach suggested by Helfferich.

Keywords: hyperinflation, hyperstabilization, monetary reform, Rentenmark, gold standard.

Areas of interest: Monetary history, monetary theory, history of economic thought, macroeconomic stabilization.

Resumo

A mais famosa das hiperinflações e hiperestabilizações é a experiência da Alemanha no início dos anos 1920. Famosa, mas nem sempre bem compreendida. Esse artigo procura lançar alguma luz sobre o que parecem ser aspectos negligenciados da bem-sucedida hiperestabilização de 1923 que completa agora 100 anos. Aspectos e pessoas negligenciadas, notadamente Karl Helfferich, o quase esquecido arquiteto da reforma monetária. A reforma que ele sugeriu era diferente da ortodoxia então predominante, fixada no padrão ouro, que havia sido suspensa durante a Primeira Guerra Mundial, e que os países ansiosos e equivocadamente tentavam restabelecer assim que possível no início dos anos 1920. As avaliações de outros economistas contemporâneos, inclusive John Maynard Keynes e Hjalmar Schacht, também são discutidas e contrastadas com a abordagem sugerida por Helfferich.

Palavras-chave: hiperinflação, hiperestabilização, reforma monetária, Rentenmark, padrão-ouro.

Áreas de interesse: história monetária, teoria monetária, história do pensamento econômico, estabilização macroeconômica.

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The concept that is one of the starting points of this paper – “hyperstabilization” – was introduced by the Argentinian economist Juan José Llach to draw attention to the fact that currency stabilization in conditions of hyperinflation, a relatively rare phenomenon, is in essential aspects different from usual stabilizations. The most famous of hyperinflations and hyperstabilizations is the German experience in the early 1920s. Famous, but not always well understood. This may be due to the fact that many or most economists who tried their hand at this topic knew little of Germany’s history and circumstances. In turn, economic historians of the period often had an inadequate grasp of monetary theory and even monetary history. Perhaps a language barrier is also here at play. The legal documents and most of the relevant literature, including by those directly involved in the hyperstabilization, is available in German only. On the other hand, German scholars seem to be reluctant to go back to this traumatic period in the history of their nation. Be as it may, recent works and, more broadly, works published after World War II seem to fall short, I believe, of an adequate comprehension of what took place in 1923-24.

The purpose of this paper is to throw light on what seem to be neglected aspects of the successful 1923 hyperstabilization that is now completing its 100th anniversary. Neglected aspects and neglected persons, notably Karl Hellferich, the almost forgotten hero of this episode and architect of the successful monetary reform. I will try to show that the monetary reform that he suggested, in full-fledged detail, and that was implemented in November of that year, was different from the then prevailing orthodoxy, fixated on the gold-exchange standard, that had been suspended during World War I, and that countries eagerly and mistakenly sought to reestablish as soon as possible in the early 1920s. Of these experiences, I note in passing, the more well-known is Winston Churchill’s problematic attempt to restore the gold-exchange standard in the United Kingdom at pre-war parity, an attempt that attracted a vicious attack from Keynes against the Chancellor of the Exchequer: “The economic consequences of Mr. Churchill”, published in 1925.

I have long wanted to write about the German hyperstabilization, but more contemporary demands led me to delay the attempt several times. I turn to it now without losing sight, however, of Benedetto Croce’s dictum: “All history is contemporary history”. Indeed, many of the matters that will be discussed in this paper relate to issues of the recent past, present, and future, as I will try to show.

For instance, the resemblance in some respects of the Rentenmark, the currency that stabilized Germany end-1923, and the Real Value Unit – the *Unidade Real de Valor* (URV), the transitional monetary unit of account that was crucial to the successful Brazilian hyperstabilization of 1994. Or, to mention a second example, the curious orthodoxy of the German Social Democratic Party, specifically of Rudolf Hilferding, the party’s most important economist, who held the post of Minister of Finance, unsuccessfully, during the hyperinflation and ten years later during the Great Depression. Hilferding’s cautious and conventional stance – perhaps somewhat strange for a professed Marxist economist - prefigures the similar position of a large, perhaps preponderant, part of the European center-left from the 1980s to the early 21st century, namely its incapacity to challenge the dogmas of the so-called neoliberal economic ideology, opening the way for the rise of a new right wing in many countries where a large part of the population felt

abandoned by the “Great Coalitions” and other political arrangements negotiated between the established parties of the center-right and the center-left. In the 1920s and 1930s, as in recent decades, the orthodoxy of the center-left seems to have contributed to the rise of the extreme right.

Looking towards the future, the German experience might also be relevant for monetary efforts underway among the BRICS countries (Brazil, Russia, India, China, and South Africa) where, at the initiative of Russia, proposals are under consideration to bypass the US dollar as well as the Western financial system and to create, perhaps, a unit of account and even a full-fledged currency backed in some way by real assets and, more generally, on the strength of the economies of the five member states.

In so far as monetary history and practice are concerned, the main protagonists of the historical episode that will be considered in this paper are four economists, all of them theorists as well as practitioners: John Maynard Keynes, Hjalmar Schacht, Rudolf Hilferding and Karl Hellferich. The first three, especially Keynes of course, are well known. The last one, almost totally forgotten, is however by far the most important one for the matter at hand. The monetary reform proposed by Hellferich, in complete detail and even its legal documents, was subsequently revamped or “corrected” by Schacht. The way in this correction was done had fateful consequences for Germany, as will be argued, because it involved a return to a rigid monetary scheme, the gold standard, and dependence on foreign private credit. This left Germany especially vulnerable to the Great Depression from 1929 onwards. Contrary to popular notions, and in so far as the merely economic aspects of the issue are concerned, it was not the hyperinflation itself that led Adolf Hitler and the *Nationalsozialistische Deutsche Arbeiterpartei* - NSDAP to power. Recall that Hitler attempted an unsuccessful *Putsch* in November 1923 at very height of the hyperinflation and just before the hyperstabilization proposed by Hellferich was launched. What paved the way for Hitler’s rise was mass unemployment during the Great Depression. Therefore, any connection between the Third Reich and the hyperinflation is probably indirect and perhaps partly due – this is one of the points the paper tries to make – to unfortunate aspects of the monetary stabilization process from 1924 onwards.

Keynes

Let us start with Keynes. As is well known, the great British economist, as yet not so well-known and respected as he would later become, took a keen interest in German matters since his participation in the United Kingdom’s delegation in the Versailles conference and his subsequent stark denunciation of the Peace Treaty, a veritable diatribe against it in his famous book *The Economic Consequences of the Peace*, published in 1919. After that, Keynes continued to follow German affairs and published frequently on the Versailles treaty, the crushing reparations imposed by the victorious Allies, and their effects on the German economy. One of his less well-known contributions to this topic, and in particular to the stabilization of the Reichsmark, was his participation in a group of experts that was convened by the German government to discuss how to face the ongoing hyperinflation. I have written in some detail about this and will not come back to a full description of Keynes’ views.

For the purposes of the present paper, I will only briefly mention a few aspects of Keynes’ views. First, it should be noted that Keynes’ interpretation of the basic causes of

the surge in inflation in Germany in the early 1920s strongly stressed the weight of reparations – in fiscal and, especially, in balance-of-payments terms – and was close to that of German economists, Hellferich in particular. This was the so-called balance-of-payments theory of inflation that emphasized the effects of the massive reparations on Germany's external accounts, the resulting imbalance leading to disruptive exchange-rate depreciation and from there to an uncontrollable rise in domestic prices. This view, one can note *en passant*, is similar to interpretations by Latin American and other economists of the hyperinflations and high inflations experienced in many countries in the region – including Argentina, Brazil, Bolivia, Nicaragua, Peru, and Venezuela – after the international debt crisis that broke out in the early 1980s. The balance-of-payments theory of inflation contrasts with the more orthodox view, taken by Bresciani-Turroni and later by Thomas Sargent, that inflation is the result of fiscal deficits and excessive monetary expansion, and that therefore stabilization can only be achieved once fiscal consolidation is implemented and the printing presses can be stopped, a so-called regime change, to use Sargent's language.

But coming back to Keynes: although he departed from more orthodox views on the origins of the German inflation as well as in some aspects of the recommendations that he made to the German government, the economist we see in action in 1922-1924 is the Keynes of the *Tract on Monetary Reform*, published in 1923, still struggling to escape from the grip of economic orthodoxy, as he will later say himself, and not the Keynes of 1926, who was ready to come out strongly against the restoration of the gold standard in Britain, especially at the pre-war parity between the pound sterling and gold. Now, this orthodox or semi-orthodox Keynes of the early 1920s was perhaps not equipped to completely understand what was required to stabilize the Reichsmark. He never showed, I submit, an understanding of what actually happened with the German currency in late 1923 and early 1924 and did not clearly see the problematic implications of Schacht's return to the gold standard in 1924.

Hellferich

What happened in late 1923, was a surprisingly sudden stabilization of the currency, immediately referred to as the "Rentenmark miracle" that was brought about by a monetary reform of an unusual nature, a hybrid, half orthodox, half heterodox scheme, that took account of the monetary conventions of the day but deviated from the usual practices in significant ways, a brilliant response devised under extreme pressure to the dramatic circumstances in which Germany found itself.

To understand what happened, we need to go back to one of the major German economists of the time, Karl Hellferich, who despite being outside government, presented and negotiated with the relevant parties a complete solution in all central aspects and in full detail, including the required legal documents – a truly heroic feat that would need to be fully recognized if we are to understand events and give credit to those that deserve it.

One reason why Hellferich's role is largely forgotten or underestimated is that he died a few months after the monetary reform was launched. The recently appointed president of the Reichsbank, Hjalmar Schacht, eager to take control and credit for the success of the stabilization, strove to erase Hellferich's contribution and, more

importantly, reformed the reform, so to speak, following a more conventional approach by restoring a gold-exchange standard. But a bit more on that later

Before attempting to describe the monetary reform itself and its peculiarities, two aspects of the situation need to be considered. First, the background and personal circumstances of the architect of the Rentenmark and, second, the political and macroeconomic drama Germany was going through in the early 1920s.

Helfferich was one of the country's most important economists as well as a prominent policy maker. Working in the tradition of the German historical school, he published extensively on economic and on other matters. Helfferich's knowledge of monetary matters and monetary history was undisputed. It was grounded not only on his studies, but also on practical experience. He had held a number of public positions, notably that of Finance Minister during World War I. He was a high-profile member of the country's conservative and monarchist right-wing, remaining to the end an irreconcilable adversary of the Weimar governments and of the Versailles peace settlement. And a crucial point for the matter of hand – he enjoyed the respect and trust of Germany's ruling class and proprietary owners. Without this, as we will see, his role in the successful hyperstabilization would not have been possible.

Germany's acute crisis

What was the nature of Germany's crisis in the early 1920s? This a long and complicated story that will be covered here only briefly, with a focus on the economic, political, and international aspects that seem most relevant to the successful hyperstabilization of November 1923. As indicated above, the German economy was struggling with the burden of massive reparations, imposed by the victorious nations after World War I. Germany was often late in fulfilling these obligations and this led eventually to the extreme step taken by France in January 1923 to occupy the Ruhr region, where the main German industries were located. As a result, the political and inflationary crisis reached a high point. Now, Germany's international reserves were very low – and this point is central to understanding the country's quandary. Reserves were further depleted in early 1923, when Germany attempted to stabilize the currency with an exchange rate anchor, i.e., by fixing the nominal foreign exchange rate with respect to gold. Stabilization ensued, as expected, but could not last long since the fiscal imbalances aggravated by the occupation of the Ruhr and the lack of confidence in the Reichsbank and the Treasury soon led to a run on Germany's reserves. To avoid a total depletion of reserves, the Reichsbank abandoned the exchange rate peg and allowed the currency to depreciate. A massive depreciation then occurred leading to a return with a vengeance of the hyperinflation.

The question as then formulated, reflecting the monetary conventions of the time, was to identify some way of backing or anchoring the German currency. The standard manner was to back the currency with gold or currencies convertible in gold, chiefly the US dollar at the time, since most or all of the leading currencies had not yet been able to restore the gold-exchange rate or to ensure international confidence in their stability and convertibility into internationally liquid assets, mainly gold and dollars. This approach required, however, a high level of international reserves and/or external financial support. Germany had neither. Not only reserves were low, but external support in the form of

new loans and a substantial rescheduling or cancellation of reparations was not in the cards in 1923. On the contrary, Germany was in confrontation, the worst since the end of the war, with France, the main and intransigent creditor of reparations. Any financial support from abroad, even if possible, and this was a very remote, probably non-existent alternative at that time, would come with strings attached, something that Germany was loath to even consider, given the terrible experience with the West since the country's capitulation. Those in the West who looked sympathetically at Germany's plight, Keynes for instance, were in minority and could not change the tide of resentment and the desire to punish the defeated country.

How could monetary stabilization be attempted in these dire circumstances? Here is where Hellferich steps in. The essence of his approach was to seek an *internal or national backing* for the German currency, one that would not depend on the practically non-existent international reserves of the Reichsbank nor on also non-existent external financial support, but that would nevertheless somehow appeal to the monetary notions of the time. The most that could be obtained in terms of balance-of-payments relief was to prolong and further increase the scope of the moratorium on reparation payments, and this was already underway, at least partly.

To construct his monetary reform proposal Hellferich went back in history and based himself on previous episodes, namely in Scandinavia in the 19th century, notably the successful Danish monetary reform of 1813. More importantly perhaps, he took as a starting point the monetary experiments that had arisen in Germany, on a piecemeal and uncoordinated manner, to allow economic agents to live through the catastrophic inflation of the Reichsmark. These were known as the *Notgelder*, emergency currencies, issued by provinces, municipalities, and even private firms, backed in different manners with real assets. The Rentenmark proposal was largely a nationalization of these local experiments.

This is where the German hyperstabilization is perhaps similar to the Brazilian hyperstabilization of 1994, the *Plano Real*. In this particular point: both monetary reforms took as starting point the actual practices of economic agents during the hyperinflation. In the Brazilian case, the singularity was the hyperindexation of the economy not chiefly to the US dollar exchange rate but to domestic price indices, a somewhat more efficient form of protection against inflation than dollarization, given that the exchange rate was prone to fluctuations in real terms, i.e, in terms of domestic purchasing power, a crucial distinction for a large and relatively closed economy like Brazil. The Brazilian solution was to create a transitional unit of account – the Real Unit of Value, a *Unidade Real de Valor*, URV – indexed to general domestic prices. The monetary reform of 1994 thus replicated and nationalized the generalized practice of indexation, referred to as monetary correction, *correção monetária*, that went back to the 1960s and had allowed Brazilians to function economically during the time of high and acute inflation. The analogy to the German case seems clear.

One of the stumbling blocks to the approach devised by Hellferich was the extraordinary attachment of economists and policy makers to the orthodoxy of the gold standard, an attachment that was highly impractical and made monetary stabilization almost impossible in practice. This was true even of prominent Marxist economists, such as Hilferding, an indication perhaps that detailed knowledge of *Das Kapital* and Marxian

economics was of little practical use, already in the 1920s. More generally, Social Democracy, the SPD, the *Sozialdemokratische Partei Deutschlands*, had come a long way, since before the WWI, to becoming a middle of the road, respectable party, to the profound irritation of the Bolsheviks, Lenin notably, who spoke of the “renegade Kautsky”, in reference to Karl Kautsky, one of the leaders of SPD revisionism and accommodation to conventional politics. In the economic terrain, this was reflected in a surprisingly tame acceptance of the monetary and fiscal orthodoxies of the day.

It so happened that Hilferding became Finance Minister of Germany during the height of the hyperinflation, as part of a coalition government that included his party, the SPD. Now, Helfferich tried but had unsurmountable difficulty in making the Marxist Finance Minister accept that stabilization by means of an orthodox restoration of the gold-standard was for the moment entirely out of Germany’s reach, for the reasons summarized previously. Although Helfferich was not part of the government, and Hilferding and the SPD were his political adversaries, or perhaps one should say enemies, given the extreme political polarization at the time, he reached out to minister Hilferding to try to explain that a conventional stabilization was not feasible and that a different approach was indispensable. According to Helfferich’s account of these conversations, Hilferding went to strange extremes in defending a gold or foreign exchange-based stabilization. When confronted with the fact that Germany’s international reserves were not only low but had been partly pledged to guarantee loans, Hilferding reportedly replied, to Helfferich’s indignation, that “they could be pledged a second time”.

Not surprisingly, Hilferding was a failure as Minister of Finance. In September 1923, he was replaced by Hans Luther, a conservative politician, who welcomed the applied in November 1923. A proposal that involved, as Luther himself later stressed in his recollections of the hyperstabilization, a full-fledged and detailed monetary reform proposal, including the essential legal details and documents.

Ahead of an explanation of the Rentenmark reform, a few possible “lessons” from these incidents. First, the presence as Finance Minister of an accomplished and respected economist such as Hilferding is no guarantee of success. Specially, if we consider that Hilferding would have another stint as Finance Minister during the Great Depression and again fail miserably, once more because of his attachment to monetary and fiscal orthodoxy and the preference for continuing to stick to the increasingly unsustainable gold-standard that had been established by Schacht in 1924. By the way, Schumpeter, an even greater economist, had also held the post of Finance Minister of his native Austria in 1922, during the country’s similarly intense hyperinflation, and also failed miserably. To mention a final example of this curious practical incapacity of excellent economists, take the case of Argentina that arguably has the most capable economists in Latin America. This strong point has had no perceptible influence on the country’s economic performance in recent decades.

Another possible “lesson” is that economic proposals, if they are to be influential and eventually put into practice, must be formulated and presented in all relevant aspects and even details, ideally accompanied by the relevant proposed laws and decrees. General ideas, however attractive they may be, are ultimately of little use, especially in economic emergencies such as the one experienced by Germany at the time.

The Rentenmark “miracle”

Let us come now to an explanation of the main aspects of the Rentenmark monetary reform. Given the complete collapse of trust in the Treasury, the Reichsbank and the Reichsmark, the reform resorted to the creation of a new issuing bank, the Rentenbank, a private entity, with exclusively private capital, that would function independently from the government and its institutions, following, however, strict and detailed rules established by law. The Rentenbank had two primary tasks: a) to issue a new currency, the Rentenmark, that would circulate in parallel to the Reichsmark; and b) to supply the Treasury with temporary financing equivalent of at most 50% of the bank's capital.

The above-mentioned insufficiency of reserves and lack of external financial support led to an unorthodox way of backing the new currency. After months of negotiations with the private sector, led by Hellferich himself, a solution was reached that involved backing the Rentenmark and making it convertible to internal resources. All private German firms were required by law to deliver bonds or first order mortgages corresponding to 4% of the value of their lands and other fixed assets. These obligations paid interest to the Rentenbank at the rate of 6% per year. Based on these assets, the new bank issued its own bonds, the Rentenbriefe, into which the new currency, the Rentenmark, would be freely convertible. The Rentenbriefe, as well as the obligations of private firms to the Rentenbank, were indexed to gold and paid 5% per year. The exchange rate of the Rentenmark was stabilized, but with no commitment to convert the new currency into gold or other internationally liquid assets. Capital and foreign exchange controls were retained. Convertibility would be internal, into Rentenbriefe, backed in turn by the mortgage on domestic assets supplied by the productive sector of the German economy.

The monetary reform was an almost instantaneous success and hence the designation “Rentenmark miracle” that soon became current voice. The approach was unusual, but nothing succeeds like success. The Rentenmark was welcomed right away as the long-sought solution to Germany's monetary crisis. Prior experiences, Denmark's especially, albeit half-forgotten, could be invoked and helped Hellferich conceive his solution.

There is no doubt, however, that the Rentenmark reform was a heterodox approach, probably unseen since the earlier part of the 19th century, that only imitated in a limited way the orthodoxy of the times by backing the new currency and making it convertible. Was it not more than a clever psychological trick, as some claimed at the time and later? Internal convertibility into domestic assets was undoubtedly strange. It was seen thus by many, including the recently appointed president of the Reichsbank, Hjalmar Schacht, as a strictly temporary and unsustainable device to be done away with as soon as possible.

The main innovation was indeed the Rentenmark's independence of gold, stigmatized by Keynes, but only some years later, as a “barbarous relic”. Germany's hyperstabilization pointed the way, it can be said, to a fiduciary currency, a process that would take hold only gradually and be completed as late as 1971, when Richard Nixon unilaterally broke the link between the dollar and gold. Keynes, who would become one

of the champions, if not *the* champion of the struggle against gold-standard orthodoxy, gave no indication at the time, however, that he had carefully examined the Rentenmark reform and recognized its innovative features. All his references to German monetary and economic matters overlooked what had happened in late 1923 and favored rather uncritically the orthodox steps taken by Schacht from 1924 onwards. Paradoxically, Keynes supported the return to gold in Germany, the approach that he was to denounce starkly in subsequent years, as noted above.

Schacht had taken office as Reichsbank president in November, following the death of Rudolf Havenstein, who had held the position since 1908 and during the entire period of the hyperinflation. Havenstein's sudden death paved the way for a new name at the helm of the central bank, a person less contaminated by the failure of the Reichsbank to stem what was then if not the worst, certainly one of the worst inflations on record. As Schacht arrived at the Reichsbank, the monetary reform was underway and his initial role was to help implement it, which he did successfully in his first months in office. Much more conventionally minded than Hellferich, he had from the start deep misgivings about the heterodox or semi-heterodox reform launched in November. Thus, as soon as he glimpsed an opportunity, he shifted the reform back to the standard gold-based approach. This was done in April 1924, and set Germany on what was to prove a fateful path to external financial dependence and macroeconomic vulnerability.

How was this restoration possible so soon after the peak of the hyperinflation, in a country that had been compelled to resort to a non-conventional reform precisely because of the perceived impossibility of adopting a gold-standard? Reasons for this seem to be both internal and external. On the internal side, the Rentenmark miracle itself had made it possible to lay the fiscal foundations for a stable currency. As Hans Luther explained at the time, Germany had paradoxically been forced "to begin the construction of the house by the ceiling". Monetary stabilization had to precede the stabilization of public finances. Indeed, in conditions of hyperinflation, fiscal adjustment was virtually impossible. What would later become known as the Tanzi-Oliveira effect, led to a continuous erosion of fiscal receipts, given the effects of monetary depreciation on the real value of taxes collected with a lag. True that hyperinflation also had positive effects on Germany's fiscal accounts, by wiping out public debt obligations unprotected against inflation and eroding the real wages of public servants. But it seems that these positive effects were basically exhausted by 1922/23. In any event, fiscal planning and the orderly establishment of a government budget were not viable during the period of acute instability, especially in a country long accustomed to stable monetary conditions and with no experience of high inflation.

Even so, the automatic, mostly favorable fiscal effects of the hyperstabilization were apparently not sufficient to immediately reverse the public sector deficit. The Rentenbank was thus allowed, as noted, to provide temporary and limited monetary financing to the Treasury – a way also of putting the new currency in circulation. However, the government was not thereby exempted from taking adjustment measures, which Luther did resolutely and immediately by cutting expenditures and increasing taxes. At the same time, Schacht had to raise interest rates sharply to attract foreign funds and stem attempts to circumvent capital controls and foreign-exchange restrictions. One can presume, as well, that fiscal and monetary tightening were important to counteract

and contain the expansion of internal demand brought about by the recovery of real wages, something that is typical of hyperstabilizations, as subsequent experience would show. A rapid and uncontrolled expansion of domestic demand could have inflationary effects and lead to imbalances in the balance of payments on current account, undermining the stabilization of prices in the new currency. A number of episodes during the 20th century, for instance Argentina's Austral Plan of 1995 or Brazil's Cruzado Plan of 1996, are examples of the failure to sustain monetary stability due to a rapid and endogenously generated growth of consumption demand. Fiscal restraint and high interest rates were thus indispensable to the success of the monetary reform.

Now, all this would not have been sufficient to allow Schacht's return to gold if the economy's external circumstances had not changed as well. First, the level of Germany's international reserves recovered swiftly after November 1923. Second, external financial support became available, albeit limited, partly because of the Rentenmark's success. Germany managed to secure some rescheduling of the reparations with the negotiation of the Dawes Plan, signed in 1924. Moreover, the tide of international financial markets began to change, with Wall Street and US commercial banks becoming more prone to supply credit to foreign borrowers, including Germany, now more creditworthy because of the hyperstabilization, higher international reserves and the Dawes Plan.

The sequence of events just summarized is almost forgotten, perhaps one could even say totally forgotten. This untold story of the two-stages of Germany's hyperstabilization, the semi-heterodox Helfferich monetary reform followed by Schacht's orthodox restoration of gold occurred in one of the world's most important economies. Why is it untold or half-forgotten? One reason is of a strictly personal nature. In April 1924, Helfferich died in a train crash, only five months after the entry into circulation of the Rentenmark. The architect of the 1923 reform gone, Schacht dominated the narrative about what had happened in Germany in that crucial period. In many writings and public pronouncements, the prolific and intelligent Reichsbank president developed an account of the hyperstabilization that obliterated the traces of Helfferich's reform and stigmatized the Rentenmark as a highly precarious and unworkable scheme that had had to be replaced as quickly as possible by a return to gold. Also, the unusual features of the Rentenmark obstructed an understanding of what had been done, especially by foreigners. Keynes himself, as noted, accepted without reservations the interpretation and version of events offered by Schacht.

Recycling of reparations, Germany's external vulnerability, and the collapse of the Weimar Republic

A crucial element of Schacht's approach was the resort to foreign loans. What happened was in fact a "recycling of reparations", with debt to foreign private creditors, mainly US based, substituting in part for debt in the form of reparations, not unlike what would happen in the 1970's, after the oil price shocks, when countries that were dependent on oil imports took on debt to foreign commercial banks, mainly American, European and Japanese, to cover higher expenses with oil in what became known the "recycling of petrodollars". The outcome was also similar. In the late 1970's and early 1980s, countries saddled with external debt, in Latin America and other regions of the

world, were suddenly faced with an interest rate shock promoted by the Federal Reserve under Paul Volcker and the abrupt interruption in the supply of new loans, leading to a deep and prolonged debt crisis. Something analogous happened to Germany and other indebted nations when the 1929 Wall Street crash inaugurated a period of high interest rates and scarce or non-existent private financial credit.

Of course, Germany would have suffered anyway from the severe international shocks beginning in 1929. What made the country, however, particularly fragile was the way that stabilization had been revamped in 1924. Two points are critical in understanding Germany's predicament in the run up to the Great Depression. First, the fact that the debt overhang problem associated with the burden of reparations had been only postponed, i.e., by a combination of rescheduling through the Dawes plan and other international agreements, as well, as more importantly, by new debt obtained from private sources. Thus, continuous access to private capital markets was crucial. When foreign private financing suddenly dried up after 1929, Germany had once again to face unaided the burden of reparations coupled now with that of the debt to private foreign creditors incurred from 1924 to 1929. Keynes and other economists would then refer to this as the "transfer problem", essentially the same macroeconomic problem Latin American economies would have in the 1980s, forced as they were to suddenly shift to a substantial transfer of real resources to service their external debts to private commercial banks.

The burden of reparations was eventually reduced by negotiations during the Great Depression and finally eliminated in 1932, shortly before Hitler came to power. But this took a couple of excruciating years during which Germany's economy reeled under the impact of violent external shocks and the heavy demands of foreign financial obligations. The economy collapsed and unemployment reached unprecedented levels. Germany was totally unprepared for this unfolding of events.

A second factor was, as already mentioned, the rigidity of Germany's monetary scheme. Having resorted to the gold standard to get rid of a catastrophic inflation, the country's policy makers feared most of all a return of monetary instability, even in the midst of a formidable economic downturn following the 1929 Wall Street crash. Germany's extreme attachment to the gold-standard led to the adoption of restrictive, pro-cyclical fiscal and monetary policies even in the face of a severe contraction – a disastrous response to what would soon reveal itself as the greatest economic depression on record. Britain, by contrast, got rid of the link to gold earlier, in 1931, with Keynes' vocal and effective attacks on the "barbarous relic" playing a considerable role. Germany stuck to gold longer, until 1933, with a deterioration of its position accelerated by the earlier devaluations of other currencies. German economic authorities were, more than others, prone to view attacks on economic orthodoxy as dangerous and hesitated to deviate from gold. The country would pay an enormous price for this.

In 1928/1929, Rudolph Hilferding had a second opportunity, by the way, to conduct the economy as Finance Minister, once more in a period of extraordinary economic challenges and, again, he revealed himself unsuited to the task. In the middle of the Depression, the only thing he could think of was to insist in his loyalty to the conventional wisdom of the day and adapt his actions (or inactions) to the doomed goal of keeping the country's economic policies strictly in line with what was required under

the orthodox gold standard. Hilferding is, as noted, a worthy ancestor of a later generation of center-left politicians and economists who fell in line with the so-called Washington consensus and neoliberal economic policies in the last decades of the 20th century and the early years of the 21st. This could well be a topic for research – the “Hilferding syndrome” and the curious servility of the left to orthodox economics.

Of course, one should not overstretch the point. The entire world economy suffered in 1929-33 and the immediately following years. But the point that was made here is that Germany was among the hardest hit for reasons closely linked to what had happened less than ten years before during the hyperstabilization, as well as to the legacy in terms of inflation fears and ill-fated policy responses. This would contribute, perhaps decisively, to the fall of the Weimar Republic and the rise of Hitler to power in 1933.

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