BTW: The German Economy

Reparations

• The Treaty of Versailles stipulated that Germany had to pay war reparations. In 1921, the Allies settled the final amount at $33 billion dollars. (Roughly $393 billion in 2005 dollars)
• The Germans made some initial payments, but by 1923, began defaulting. The French moved in and occupied the Ruhr Valley (large industrial center in Germany), intending to extract payments in the form of goods and industrial production. This was pay-back for when the Germans did the same thing to the French after the Franco-Prussian war.
• The German government then made an economic error. They began printing money, so they could make their war payments. This de-valued the German mark (dollar) significantly. In a very short period of time, the German mark became absolutely worthless.

The German Inflation, 1923

• The German government printed money and rendered their currency worthless, as the following exchange rates illustrate.
  1914 $1 American = 4.2 Marks
  1919 $1 American = 8.9 Marks
  Nov. 1 1923 $1 = 130 Billion Marks
  Nov. 20 1923 $1 = 4 Trillion, 200 Billion M
• The German economy had effectively collapsed by the end of November 1923, and people resorted to bartering for goods.
• In 1924, the United States stepped in with the Dawes Plan, and helped re-structure German reparations payments. This plan also gave a $200 million dollar loan to the German government to help stabilize the economy and aid recovery.

Impact on People

• In 1923, Germans were frightened because all of their savings and pensions were rendered totally worthless by the inflation. They faced an uncertain future with no savings and no money in their pockets.
• Things improved from 1924-29, and the German people gained hope. But when the stock market crashed, it created a new economic crisis that reminded the Germans of the 1923 crisis. It made them fearful.
• Economic instability often translates to political instability. Germans looked to their government for help and relief, and when the government was unable to relieve their misery, the people were willing to search for political alternatives. These political alternatives did not have to be reasonable, they simply had to promise change.

A Return to Misery...

• The stock market crash was not just bad news for the American economy, it was bad news for Germany (and Europe) as well since American loans were helping to keep the German economy afloat.
• American bankers called in German loans (given in 1924), because their banks were failing. The German government and various businesses did not have the money to pay off the loans, and the German economy plunged into depression along with the rest of the world. (This time, without the great inflation.)
1. What was the total German war debt?

2. What happened when the Germans defaulted on their payments in 1923?

3. How did the German gov't react?

4. What was the impact?

5. Chronicle the German inflation...

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<th>Date</th>
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6. What was the Dawes Plan? How did it impact the German economy?

7. Why did the crash of the US stock market impact Germany?

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9. Why did the 1923 inflation frighten the German people?

10. How did the German mood change from 1924-29?

11. From 1929 and beyond?

12. How did this economic instability translate into political instability?

13. Evaluate: Should the US have stepped in with the Dawes Plan?

14. Evaluate: What role do world powers have in maintaining overall world economic health?
1. What was the total German war debt?
$33 billion dollars. (Roughly $393 billion in 2005 dollars)

2. What happened when the Germans defaulted on their payments in 1923?
The French moved in and occupied the Ruhr Valley (large industrial center in Germany), intending to extract payments in the form of goods and industrial production.

3. How did the German gov't react?
They began printing money, so they could make their war payments.

4. What was the impact?
This de-valued the German mark (dollar) significantly and created inflation.

5. Chronicle the German inflation...

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6. What was the Dawes Plan? How did it impact the German economy?
The **Dawes Plan** helped re-structure German reparations payments. This plan also gave a $200 million dollar loan to the German government to help stabilize the economy and aid recovery.

7. Why did the crash of the US stock market impact Germany?
American loans were helping to keep the German economy afloat.

8. How did the crash of the US stock market impact Germany?
American bankers called in German loans and the German economy plunged into depression along with the rest of the world.

9. Why did the 1923 inflation frighten the German people?
People were frightened because all of their savings and pensions were rendered totally worthless by the inflation.

10. How did the German mood change from 1924-29?
German people gained hope.

11. From 1929 and beyond?
People were fearful they would return to the situation they had in 1923.

12. How did this economic instability translate into political instability?
Germans looked to their government for help and relief, and when the government was unable to relieve their misery, the people were willing to search for political alternatives.

13. Evaluate: Should the US have stepped in with the Dawes Plan?
Yes. The economic failure of Germany was going to hurt all nations.

14. Evaluate: What role do world powers have in maintaining overall world economic health? Economically, everyone is interconnected. Nations with economic power should try to maintain the world's economic health — even if only for their own sake.
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