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Hyperinflation after the First World War in Central Europe: Causes, Remedies, Consequences*

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The paper examines in detail Germany and Poland, two of the four post-First World War hyperinflations that provided the subject of Thomas Sargent's classic comparative study of the circumstances in which inflations might be ended. It counterposes the Czechoslovak case, where stabilisation occurred without prior hyperinflation. Stabilisation brought substantial costs, most obviously in terms of recession and unemployment. The peripheral inflating countries had sought to use inflation to effect an international as well as an internal redistribution of wealth. Ending the inflation was thus politically costly, and usually involved ceding some aspect of sovereignty or limiting the room for domestic political manoeuvre. Hence many inflations were not really ended, but produced premature celebrations before a relapse, accompanied by a move against external control.

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1. Introduction and Sargents's work

The story of great inflations is one of helplessness – when a political and social system is paralysed into such dysfunctionality that it is impossible to self-correct itself. In that sense, it is generally a demonstration of circumstances in which sovereignty collapses, and external assistance is desperately needed. The external action may – and usually does – bring new resources, which are needed to combat the dysfunctionality. But it also is required to effect change in the political and economic ordering of a society: an imposition which often provokes a strong backlash.

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The most important – and still widely influential – interpretation of the post-First World War Central European inflations in a comparative context was presented by the Nobel prize-winning economist *Thomas Sargent* at a moment in the late 20th century when uncontrolled inflation seemed to be a general phenomenon of industrial countries. Sargent wanted to draw historical lessons and presented the experience of Austria, Hungary, Germany and Poland after 1919, as “laboratory experiments in which the elemental forces that cause and can be used to stop inflation are easiest to spot” (*Sargent 1982: p. 90*). Central European hyperinflation was being used then, in the 1970s, as it had been in Great Depression Britain, to generate scare stories about what might be the outcome of bad fiscal policy. But curiously, and unremarked, the most obvious outcome of Sargent’s laboratory exercise was that the experiment could only be halted by outside intervention: not a lesson that seemed relevant for the US in the 1970s.

That is – of course – not quite the usual interpretation of Sargent’s work, which can also be read as giving the misleading impression that fiscal stabilisation is relatively painless. Many people wanted to keep up their economic activity, and until the devastating ends of the inflationary process, saw stabilisation as a prohibitively costly option. Costly it certainly was, as the economist *Elmus Wicker* laid out in criticising Sargent’s interpretation of a nearly painless disinflation (*Wicker 1986*).

2. Post-First Word War great inflation in Central Europe

2.1. Poland

The Polish outcome was apparently unique in this group of Central European inflations, with a later stabilisation, but also one that was not imposed from the outside: the Austrian and Hungarian reconstructions in 1922 were managed through the League of Nations and have recently been presented as cases of international institutions “meddling.”[1] The German stabilisation took place via a major international conference, the Paris Conference of 1924, that produced a new reparations schedule (the Dawes Plan) and a large reconstruction loan. The Poles – in particular the major figure who carried out the Polish stabilisation, *Władysław Grabski* – insisted that it could only occur “on one’s own.” As he wrote, “I formed in my mind my own plan to balance the budget and carry out the currency reform on our own strength, forgetting the foreign loans and forswearing British financial experts” (*Grabski 1927: p. 25*). In another of the programmatic essays that he published during the inflation period, he explained that “it is unacceptable that, under the influence of the current crisis, we should try to obtain a loan on terms that would limit our state sovereignty” - quoted by *Jeż* (*2022*).

[1] Most recently, *Martin* (*2022*). See also an older account of the same phenomenon: *Pauly* (*1998*).

All of these inflations, accelerating into hyperinflation, had their origins in a fiscal problem that followed the tremendous economic and military mobilisation of the First World War. A survey of inflationary experience, prepared by *Ragnar Nurkse* for the League of Nations, later explained that "the Polish experience is of general interest in that it shows a remarkably close correlation between the budgetary position on the one hand and the exchange value of the currency on the other" (*League of Nations 1946: p. 25*). It is a classic case of a small open economy.

Often the causes of great inflations are described in distributional terms: citizens demand more transfers from the state, especially after times of sacrifice, such as wars and pandemics. Wartime politicians had promised a postwar era in which those who had suffered and sacrificed themselves in the conflict would be rewarded. The wounded veterans, widows and orphans all required support. In addition, the defeated powers (Austria, Hungary, Germany) faced a large external burden in the form of reparations and had fewer resources to pay as they were also punished in the form of severe territorial losses. By contrast, Poland and Czechoslovakia formed part of the coalition of Allied and Associated Powers represented at the Paris Conference, and had no reparation obligations. There were thus heavy fiscal burdens and expectations everywhere, but in differing political contexts. At the same time, it is hard to get a consensus to raise taxes, and the fiscal deficit that results is monetised through borrowing from a central bank that is subordinated to the government's fiscal policy in what is now known as "fiscal dominance". As Sargent puts it, the driving cause "was the growth of fiat currency which was unbacked, or backed only by government bills, which there never was a prospect to retire through taxation" (*Sargent 1982: p. 90*).

Sargent's account is not very different from one given at the time, by the then very young – 22 year-old – Polish economist, *Oskar Lange*, in a brilliant account of the dynamics of inflation written for the *Economic Review*:

> The post-war years were in Poland as in the rest of Europe years of pseudo-reconstruction, for the reason that it was founded on inflation. Apparently, there was a great revival in industry, trade and agriculture. Factories and workshops were busy, production increased, in many branches reaching and even surpassing its pre-war level. But this revival, as in other countries which passed through a period of inflation, was artificial. There was no great taxation, the State meeting its large expenditure by the printing of paper money, and as State expenditure in such circumstances was not felt by the population to be a burden there was no limit to its growth. The Government granted to industrial firms big loans which were repaid in depreciated currency, so that they were rather a premium paid by the State to industry. Further, the inflation created an excessive demand for commodities, as holders of money spent it as quickly as possible in order to

> avoid depreciation; and this demand kept industry and trade busy. Add to this large Government orders and the lack of any sound business policy, which was made impossible by the alteration in the value of currency. People thought this feverish and unsound inflationary revival to be real economic reconstruction, the period of pauperisation caused by the war to be passed, and national wealth and welfare to be increasing. Politicians were dazzled by the delusive picture of a recovering national status, by statistical figures pointing to increased production, and by the State engaging in vast expenditure without the need of having recourse to fresh taxation. They thought to be creating by means of inflation wealth out of nothing. (*Lange 1926: p. 99*)

The Polish finance minister and central banker *Stanisław Karpiński* fundamentally concurred with that view and indeed frequently complained in bitter terms that:

> Paper money, put in circulation in huge quantities … put in circulation not for economic needs, but mainly to level the budget deficit, stops being the measure of value, and becomes the mark of a Treasury pursuing its self-destruction. The result of the lack of stable money is that all foundations of accounting get annihilated, though they are the basis of every economic activity. An industrialist then does not know, even approximately, how much money will be needed in the near future to pay for the already arranged inputs, the merchant does not know how much new merchandise will cost while there is a need to fill the empty shelves or storages, a banker does not know what value the money that have been lent today will have upon its return, a farmer does not know how much and for how much to sell the grain that has been produced so that it will allow for restocking the inventory, no entrepreneur knows how much the labour will cost not only after a few months but after a few weeks. In short, we have better and better conditions for speculations and worse and worse for productive work. (*Karpiński 1931: pp. 257–258*)

On another occasion, Karpiński pinpointed the problem: "the biggest plague (*szkodnik*) for the Polish mark is the Polish Treasury" (*Karpiński 1931: p. 261*). Each ministry had an account at the Polska Krajowa Kasa Pożyczkowa (Polish National Loan Fund, or provisional central bank, PKKP), on which it drew liberally. Society became demoralised. "It is the depositors who lose most, depositing the value of a pair of shoes, and withdrawing the value of a roll of toilet paper" (*Karpiński 1931: p. 271*).

The liberal Polish economist *Edward Taylor*, who made the quantity theory the heart of his important analysis of the Polish inflation, drew a devastating picture of political and intellectual immaturity as the root of the inflation, in which "economic management becomes an instrument of the political fight" (*Taylor 1926: p. 230*). He analysed what he termed "political inflationism":

> We also don't think that it is right to blame particular political factions or political blocs for their unwillingness to refill the coffers of the national treasure. In some circles there is a tendency to blame the political right. When one looks closely, the political right often hesitated before increasing direct taxes; but, on the other hand, the left was constantly against increasing indirect taxes, and fees and tariffs that burdened the poorer groups in the society. They were against lowering the explosively growing state expenses. (*Taylor 1926: p. 371*)

2.2. Stabilisation experience in Czechoslovakia[2]

Resisting hyperinflation would have required a heroic political act, in which the cancellation of existing claims would be accompanied by the imposition of real fiscal burdens. Only one country, the new state of Czechoslovakia, tried that – successfully, although the tax measures were unpopular and the Finance Minister responsible, the conservative liberal economist *Alois Rašín*, was assassinated in 1923. Rašín complained to Foreign Minister Edvard Beneš in January 1919 that "The people think that freedom means no taxes, and no one does anything about the implementation of tax policy, so I don't know in what way to manage it further. The state is in danger because most of society sees it as a miraculous solver of all problems. Everyone wants employment and maintenance support, in short, they want a subsistence paid by government spending" (*Kosatík 2010: pp. 131–132*). But the stabilisation exercise was easier in Czechoslovakia, as there was a substantial group of rich property-holders regarded as aliens, the aristocratic and often German-speaking landowners from the old monarchy whose land might be nationalised and used as a basis for stabilisation. There was in a nutshell an internal enemy who might pay the price for reform and stability. The Expropriation Act No. 215 of 16 April 1919, confiscated all agricultural land over 150 ha and other land (including forests) over 250 ha. By 1922 a total of 1,229,688 ha of agricultural land and 2,733,376 of non-agricultural land had been taken from 1,730 owners: that amounted to 28.2 per cent of all Czechoslovakian land. Some of this land was returned, but most was sold off by the state to small-holders in a bid to establish a prosperous Czech peasantry (*Homolac – Tomsik 2016*).

2.3. The exchange rate and the German interpretation of inflation[3]

Inflations could be justified in a way analogous to the wartime calculation: it was a way of imposing costs on someone else. That dynamic was particularly explicit in the German discussion. Germans saw their inflation as a way of wriggling out of the reparations settlement. Chancellor *Wilhelm Cuno* privately confessed in July 1923, as the German hyperinflation reached its terminal extreme phase, that "naturally the wish had been to deal with reparations first and clean up the tax

[2] Based on *James* (*2023*)
[3] Based on *James* (*2023*)

problem afterward" (*Schuker 1988: p. 22*). Even the process of inflation involved initially luring gullible foreign investors into buying German paper banknotes in the expectation that there would be a profitable recovery of the exchange rate. By October 1921, the *Wall Street Journal* was lambasting what it now called a "gigantic fraud," by which 50 billion Mark notes ended up in the possession of American investors, to whom they were worthless.[4]

Small countries – like Austria, Hungary and Poland, but also the much larger Germany, which felt itself to be a victim of the postwar settlement – developed an obsession with the exchange rate and the current account, to such an extent that they often saw the exchange rate collapse as the real driver of inflation. The focus on the exchange rate prompted a thinking in terms of gaming the system, and using the exchange rate as a way of imposing the real costs of economic misfortune on others. Hyperinflationary countries are almost by definition on the periphery of the international monetary system, while the central countries of the international monetary system certainly experienced inflationary episodes (the UK in the Napoleonic Wars and the First World War; the US in the 1970s).

The central European postwar inflations and hyperinflations had three fundamental immediate economic and political causes: 1) a low savings rate (following from wartime changes in income distribution); 2) poor monetary and fiscal policy; and 3) powerful financial and business interests who pushed policymakers. These causes could be masked by the focus of debate on the exchange rate problematic, and on trying to extract short-term advantages.

The consequence of the World War was an erosion of incomes and a dramatically reduced savings rate. But at the same time, at least for a while Germans were able to sustain their living standard and run large trade deficits. They had this luxury because investors in the rest of the world put their money into buying German assets: currency, securities and real estate. British and American investors were gambling on a German recovery. After all, before 1914, Germany had been with the United States one of the two strongest economies in the world. Only at a relatively late stage in the story of the German inflation, in the summer of 1922, did the foreigners see that Germany was unlikely to be able to pay off all the debts to foreigners (including the financial impositions that the Allies made as reparation demands under the terms of the Versailles Treaty). In the summer of 1922, a political event, the assassination of the Foreign Minister *Walther Rathenau* (24 June 1922) underlined the political instability of the republic. From that moment, foreigners no longer wanted to buy German assets. The big capital flow of the earlier period came to a sudden stop. The Mark went into free fall. A large part of the discussion

[4] This point was already noted in the contemporary US press: *Mark Inflation Seen as Gigantic Fraud: Holders in United States*. Wall Street Journal, 6 October 1921. It is developed in *Holtfrerich* (*1986*).

of inflation was couched in terms of Germany's relations with an outside world that was increasingly seen as hostile and malevolent. The capacity of the government to control price developments disappeared altogether at the beginning of 1923, after Germany failed to make a delivery of reparation coal, and France responded by a military occupation of the Ruhr valley in an attempt to seize coal and other resources. The German government then paid Ruhr workers and businesses not to work, and the fiscal gap was impossible to bridge.

The second driving force of the inflation was thus the policy of the German government and the German central bank. Both were highly sensitive to political considerations. Both worried that rising unemployment might destabilise the precarious political order. Thus, they were willing to do anything in fiscal and monetary policy to counteract any kind of economic slowdown. The government ran large budget deficits as it tried to keep up employment in the state-owned railroad and postal systems, and also to generate more purchasing power. It kept on looking for new and ingenious ways to administer repeated fiscal stimuli, which were then monetised by the central bank. Equally significantly, large industrial producers demanded continued access to cheap central bank credit, at low interest rates that became rapidly, in real terms, grotesquely negative: the central bank discount rate remained at just 5 per cent until the summer of 1922. The President of the central bank, an elderly Prussian bureaucrat called *Rudolf Havenstein*, boasted about his success in getting new printing plants (132 factories, as well as the bank's own facilities), printing plate manufacturers (29) and paper factories (30) to meet the enormous demand for new money. He found more and more ingenious ways of stimulating bank lending to large businesses on ever more dubious securities. And he kept on explaining that keeping the money presses rolling was a patriotic duty. There was in short what would now be called a "Havenstein put" in which the central bank would keep its interest rate at levels sufficiently low so that German business could continue to expand.

The third inflationary dynamic is thus a "financial dominance," in which financial institutions and businesses dependent on them argue that they need continued access to central bank resources – to monetisation – in order to continue to operate. It is defined by *Markus Brunnermeier* as:

> the ex-ante behaviour of the financial sector, which, out of fear that losses will be pushed onto it, purposely stays (or even becomes) undercapitalised. This behaviour increases volatility and might force the fiscal or the monetary authority to absorb losses… Under financial dominance few losses can be pushed onto the financial sector and even worse, it might be necessary to bail it out. A second game of chicken between the fiscal or monetary authority might arise on who has to bail out the financial sector. Instead of providing insurance for the government sector, the financial sector can be a drag for the economy and

with it for the government's tax revenue. If the fiscal side is not sound, a diabolic loop between sovereign risk and the financial sector can emerge (*Brunnermeier 2015: pp. 11–12*).

In the longer run, inflation destroyed German savings and made the economy of the unstable democracy of Weimar vulnerable to yet more shocks. It also had a dramatic effect on popular and political psychology. Attempts to compensate losers in the German inflation, by revaluing some assets but not others, set one group against another, and prompted the belief that politics was about negotiating between organised interest groups.

The constant alteration of prices, the dramatic story of fortunes made and fortunes lost as a result of speculation, made ordinary Germans, and Central Europeans, vulnerable and neurotic. Gender relations were transformed by the madness of prices. Men saw women and women saw men as fundamentally calculating, materialistic and disenchanted with any romantic illusions (*Marcus 2018: pp. 63–73*). Money was all that mattered. Because it played along with very old established clichés about Jewish dominance of finance, the inflationary uncertainty fuelled anti-Semitism. Later on, some shrewd observers such as the scientist and writer *Elias Canetti* reached the conclusion that it was the Great Inflation that made the Holocaust possible, by creating a world in which large numbers simply seemed unreal and incomprehensible (*Canetti 1960*). Bureaucrats simply wrote down impossibly big sums without thinking of the human consequences.

It is worth thinking about the precise mechanism by which unstable prices translated into destructive and ultimately murderous social behaviour. In stable times, we expect each partner in a commercial transaction to believe that the price was fair, and that both sides benefit from the exchange. I buy a meal that satisfies my hunger, and the innkeeper in return has money that can be used to satisfy their needs. When prices move, I am upset by having to pay more. The innkeeper is angry because the money I have given no longer buys so many goods. We both think that we have lost out in the transaction and that we have been manipulated by some sinister force. We also feel guilty for taking advantage of others – getting rid of our banknotes as soon as possible. We think start to think that we are behaving in a speculative and grasping way. Non-Jewish Germans after the First World War in the middle of the currency disorder thus took up activities that they associated with Jewish actions, hated themselves for their breach of traditional norms and externalised that powerful emotion by blaming the groups associated with finance and money. There was also a backlash against mobility, especially across Germany's new eastern border, and foreign Polish and Jewish traders were depicted as taking advantage of Germans; but foreign (west European and American) tourists also seemed to be living the high life in Berlin and other fleshpots on the cheap. They too provoked resentments.

The inflation destroyed ethical values, but it also corroded and undermined political structures. Germany was (and is) a federal country. Federalism depends on precise rules about the distribution of revenue and expenditure. The inflationary process, with a constant uncertainty about the real value of taxes and government payments, produces for the territorial units the same feeling of losing out that is experienced in personal life. Taxes seem to go to the centre – to Berlin, or to Moscow (for the waning Soviet Union), or to Belgrade (for Yugoslavia under stress). On the other hand, spending looks as if it is associated with proximity to the seat of the federal government. Such interpretations fuel separatism. In the year of the hyperinflation, Saxony tried to break away under a radical left-wing regime ("the red hundreds"), while Bavaria moved to the radical right (and in November 1923 Adolf Hitler staged a putsch). The Rhineland separatists wanted to reach their own arrangement with France.

Calculations about access to credit and the government printing press reinforce the push to separatism. The German central bank was extending credit at highly negative real interest rates: that amounted to a subsidy. But only firms that could assert their national importance, and their closeness to the political process in Berlin, had a chance of getting that subsidy. Everyone else though they were losing out.

As the political disintegration proceeds, tax collection becomes more difficult – especially in the further or remote regions, and spending also collapses. In consequence, regional governments have substantial incentives to invent new fiscal mechanisms.

2.3.1. A parallel with the 1990's and some consequences

The dynamic that almost led to a breakup of Germany in the late summer and fall of 1923 produced the disintegration of both the Soviet and the Yugoslav federations at the end of the Cold War. There was hoarding as the ability to make or trust cash or credit transactions broke down: thus, from 1990, Ukraine stopped supplying food to Russia. Central banks favoured well-connected enterprises. The central federal government then blamed the outside world, or the international community, for all the chaos and disorder. For Serbia, the origins of inflation lay in international sanctions. The Soviet collapse also quickly produced a narrative of Russian victimisation, as the result of the implementation of a Cold War strategy of Russia's enemies that worked together with a treasonous Soviet leadership under Mikhail Gorbachev that "sold out" to the West. The Serbian and Russian explanations of inflation and economic vulnerability look like very close echoes of the constant refrain both of Weimar's leaders and the increasingly radical opposition to the "system," namely that it was the foreign powers or the international order that had created the inflation through the impossibly large reparations bill. Inflation led to the targeting of minorities, but also to an explosion of rage at the iniquity of the international order.

Short of the large-scale Czech-type confiscation, only a dramatic economic and political collapse, of the type that occurred in Austria and Hungary in 1922 and in Germany a year later could lay a basis for an effective monetary and financial stabilisation. There was discussion of nationalisation in all these countries, but it was rejected – in large part because of the argument that such an operation would give an easy lever to the reparations creditors to seize resources. The argument was of course put forward with exceptional vigour by existing property-holders. The whole debate left a permanent mark on politics: the idea that seizing the assets of a specific group might end every fiscal conundrum played powerfully into the growing anti-Semitic movement. It laid the basis for Nazi policies of expropriation. What began as an error in economic thinking thus ended up as a catastrophic unleashing of the politics of violence.

3. Stabilisation in Poland as an example of "premature celebration"

As a recent IMF paper demonstrates, inflationary episodes are replete with "premature celebrations". As the drivers of the initial inflationary shock (such as terms-of-trade shock) appear to fade, headline inflation may decline temporarily but underlying inflation remains sticky. In addition, the IMF paper argues, policy settings may be inconsistent, with premature policy easing in response to declining inflation (*Ari et al. 2023*). The story of the 1921 attempted stabilisation, and the associated "premature celebration," is telling.[5] The attempt, apparently successful, at a fiscal stabilisation had pushed up the exchange rate of the Polish Mark, with the quotation rising by 25 per cent in November. In turn, the higher exchange rate made conditions for business and agricultural exporters worse, and the monetary authority responded with an easing, which pushed inflation further. In November 1921, when workers and unions were asking for help because of high unemployment, industry minister Henrik Strasburger responded by demanding help from the government and the PKKP. As the PKKP credits rose, the appetite for more developed. The liberal economist *Edward Taylor* observed a:

> pursuit to increase this medicine. There was a desire to create capital by issue of the money. This is a typical advanced inflation symptom. With this typically inflationary conception showing lack of knowledge of the basic economic principles, a Sejm deputy, Father *Stanisław Adamski*, told parliament that 'the current high prices of the money are not natural, they are caused by the shortage of means of payment in circulation. Therefore.... one needs to introduce much

[5] *League of Nations* (*1922*): *p. 33*, also *Taylor* (*1926*): *p. 189*.

> bigger quantity of the money in circulation in the country... otherwise our Mark suffers for this reason in the international opinion' (*Taylor 1926: pp. 186–187*).

The most celebrated stabilisation, that went into the history books as the Grabski stabilisation, was also unfortunately a premature celebration. In December 1923, *Władysław Grabski* became both Prime Minister and Minister of Finance in a technocratic government. On 3 January 1924, he was given exceptional powers by the Sejm for a six-month period, while the stabilisation programme was implemented in the Act on the State Treasury Reform and Currency Reform, enacted at breakneck speed on 11 January. The critical legislation became law through a presidential decree already on 20 January 1924. Under the decree law of 20 January 1924, a new central bank, Bank Polski (BP), was created, with a note circulation was backed at least 30 per cent by gold (coins and bars) as well as gold-based foreign currencies (at that moment the pound had not yet returned to gold convertibility). The new currency, the złoty (or "golden" in Polish), would be set at the gold value was set at that of the Swiss franc, 1/3.444 gram of pure gold. The new initiatives stabilised expectations, and the markets began to be more confident.

But then the reform faltered, in part due to bad luck. The harvest of 1924 was poor, and Polish exports fell off at the same time as prices weakened. Then a major tariff war with Germany began in mid-1925, and exports of Polish coal to Germany fell precipitately. The foreign holdings of BP fell from 269 million złotys at the beginning of 1925 to 120 million at the end of June, and 70 million by the end of the year. The exchange rate started to fall. Then a series of bank runs and failures prompted a clash between the new central bank and the government. In these conditions, Walter Bagehot's *Lombard Street*, which had become the classic handbook for central bankers, recommended extending credit to banks that were fundamentally sound but faced a temporary liquidity shortage, but at the same time raising interest rates to combat the external drain. That course, however, would hit industry, agriculture – indeed the whole economy – hard. In the clash, Grabski argued for bank support, and BP for the support of the currency, even at the expense of the financial sector. It was probably impossible, as even Grabski later realised, to defend both the banks and the currency. BP won out, and forced the resignation of the Grabski government on 13 November 1925, with the exchange rate continuing to slide. Banks in Britain and the United States were unwilling to commit themselves to a support operation. Grabski's legacy appeared to be in tatters, and the opposition began to use the term "grabszczyzna" to indicate a completely messed up policy.

Marshal Józef Piłsudski's coup of May 1926 and the move to a political sanation (*sanacja*) represented a turning point in terms of currency assessments. It followed a painful five months of austerity imposed by Finance *Minister Jerzy Zdziechowski* in the government led by *Aleksander Skrzyński*, which cut pensions by 35 per cent, laid off 25,000 railroad employees, and reduced sickness and disability support, while it increased taxes, utility prices for gas and electricity, and alcohol prices. The measures heightened the economic crisis. But the fiscal stabilisation did not stabilise the exchange rate: on the contrary. Austerity often fails to induce confidence, either domestically or on the part of foreign investors, who often read it as signalling political fracturing and stalemate.

The critical part of the rescue was in fact the likelihood of outside assistance. Only after the 1926 Piłsudski coup did the US position became much more favourable to Poland. The US Minister in Poland explained to Edwin Kemmerer, the Princeton professor who had initially been asked by Grabski to advise on a stabilisation scheme, that

> the indications are that the government will be in a position to solve its economic difficulties much more rapidly than heretofore and I believe in a spirit much more friendly to America. … It is hard to foresee the effect of the revolution on Poland's credit among foreign nations. A few days after the fighting I learned of not less than four financial operations involving fairly large credits to Poland which had been concluded. The Harriman interests, as you probably know, are ready to go ahead with their investments in the country.[6]

In the end, stabilisation and ending inflation required foreign support, but also an end to political turmoil.

In mid-1932, with other countries in the depth of depression and despondency, the Bank of England's *Harry Siepmann* commented chirpily on the Polish situation as depicted by its representatives in Basel:

> From all the reports we heard, much the best of the bunch. They themselves think that they have a year to go before they will be in as bad a position as their neighbours are in already. They attribute their success to the harmonious working of the Government with the Bank, to the loyal support of the private banks, and to general administrative efficiency. Bank Polski claim to have had the whole credit position well in hand and they now thank their stars that foreign capital did not come pouring into Poland a few years ago, though it may have been a good thing that Blairs induced them to borrow more than they needed at that time. Public mentality seems to be much less troublesome than in any other country. Their boom was short and came late and they now look back upon 1928 as having been the exceptional time, so that they are the more ready to regard present conditions as approaching to normal period. There is none of the readiness which one finds in Germany to consider that the present state of

[6] Edwin W. Kemmerer Papers, Box 205, Stetson to Kemmerer, 4 June 1926. Public Policy Papers, Department of Special Collections, Princeton University Library.

> affairs represents a lapse from what any decent people are entitled to expect. Perhaps what has a good deal to do with all this is the fact that, to all intents and purposes, there are no politics.[7]

The solution in other words involved a combination of conscious depoliticisation and painful limitations to national sovereignty.

4. Conclusion

There were substantial costs to ending inflation and hyperinflation, most obviously in terms of recession and unemployment of the ending of inflation. The discussion of the costs also brought calculations in peripheral countries that inflation might be used to effect an international as well as an internal redistribution of wealth. Ending the inflation was politically costly, and usually involved ceding some aspect of sovereignty or limiting the room for domestic political manoeuvre. It could only be attractive when the international financial system was capable of producing real resources to sweeten the bitter medicine of adjustment. Hence at moments of international political and financial instability, many inflations were not really ended, but produced premature celebrations before a relapse, usually accompanied by a move against external influence and control. The dynamic was powerful in the interwar years; it resurfaces however at moments of strain in what is generally a more robust financial order, when the periphery becomes less peripheral.

The dynamic identified by *Edward Taylor* of a continual search for "medicine" in the midst of the inflationary malaise has the elements of a classic tragedy. Indeed, *Aeschylus* addressed the psychological and political mechanism in the *Eumenides*, the drama in which he showed how Athenian institutions and juridical certainty could solve social disintegration and political discord: "Man to man foresees his neighbour's torments, groping to cure his own – poor wretch, there is no cure, no use, the drugs that ease him speed the next attack".[8]

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