



## Bank and History

### Historical Review

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#### Sixty years ago: the 1948 currency reform in Germany

In 1948 history repeated itself: having lost a war, Germany was faced with a currency in ruins. There was a huge excess supply of money. Unlike in 1923, the costs and consequences of the inflation caused by the war were not clear at first glance but were held in check by wage and price control, yet the impact was the same: money had largely lost its function as a measure of value and a medium of exchange. Legal sales declined as goods drifted onto the black market. The return to a barter economy paralyzed economic life as production and trade at fixed prices became unattractive. Motivation to work, the will to save, the banking system and foreign trade suffered so badly under the monetary deterioration that the reconstruction of the country appeared to be seriously jeopardized. Only thanks to the occupying powers' policy to continue rationing goods could the complete collapse of the currency be avoided for the short term.

During that period, numerous intellectuals, whether called upon to do so or not, produced memorandums in an attempt to find a solution for the German currency plight. As early as 1944, Ludwig Erhard circulated his ideas concerning »war finance and debt consolidation« to a small group including Carl Goerdeler. But despite all the collective intellectual efforts on the German side, the structuring of a reform remained largely in the hands of the occupying powers until spring 1948. This reform was based on an American plan produced in 1946 by Gerhard Colm, Joseph M. Dodge and Raymond W. Goldsmith. It provided for a reduction of the volume of money in circulation by 10:1, to be achieved notably by a corresponding devaluation of pecuniary claims. By contrast, ongoing payments such as wages, rent and taxes would be converted 1:1. Public debts were to be written off, the banks were to be granted claims to redress their balance

sheets and in a second step an equalization of burdens fund was to be set up.

The most important German counterpart to this plan was developed by the special bureau for monetary and credit matters set up in October 1947 by the Bizonal Economic Council. Referred to as the "Homburger Plan", this quasi official draft bill was essentially consistent with the ideas of the Western Allies but was far less radical. It specified an allowance per person of 50 marks and a devaluation of only 5:1 – also moderated by the issue of debtor warrants; in addition, an equalization of burdens was to be part of the currency reform.

#### Wine and cigarettes

*The military government has approved special rations of tobacco, wine and food for the staff of banks involved in the currency exchange. The rations will be handed out in two stages: a) At the beginning of the exchange, each permanent staff member or temporary staff member employed for at least 15 days will receive cigarettes (60 for men, 40 for women) and two litres of wine; b) At the end of the exchange, each permanent staff member at the bank and all temporary staff members hired for at least one month will receive cigarettes (60 for men, 40 for women), three litres of wine and a second food ration card. [...] The gentlemen managing the banks are responsible for the proper and fair distribution of these special rations.*

Circular by the Land Central Bank of Baden, May 13, 1948

A considerable number of the participants in the "Rothwestern Conclave" were staff from this special bureau. In barracks at this location near Kassel – today the site of a museum – German experts began in April 1948, subject to strict confidentiality and isolated from the rest of the world, to deal with the Al-

lies' preparatory work for the West German currency reform. They helped formulate texts for legislation and ordinances. To relieve them of any blame if the reform failed, they stated for the record that any further-reaching ideas they had regarding content were not considered: "The three occupying powers bear sole responsibility for the principles and methods of the currency reform in their zones. At the request of the military government and German political bodies, German experts were consulted, but ultimately their work was used almost only in a technical context. All significant factual counterproposals by the German experts had to be rejected [...] because the military government did not think it could assume responsibility for realization of such ideas." Historians consider this rejection of German proposals to have been a good thing because the key to the success of the currency reform lay in its radical nature. The "Homburger Plan" tended to postpone the solving of many issues until some time in the future.

#### **No disagreeable congestion**

*Generally speaking, there are enough counters at the branches to manage the rush of customers, and also non-customers. As far as the practical procedure goes, we must ensure that we control the flow of customers so that no disagreeable congestion occurs in the bank. A special entrance and exit could be created, for instance, if that is feasible. There should be one or several clerks at the door who can provide information and direct the public to the right counters.*

Circular by Rheinisch-Westfälische Bank, May 5, 1948

In anticipation of the currency reform, rumours and speculations spread. In December 1947, Erich Bechtolf, a member of Deutsche Bank's Management Board based in Hamburg, was expecting the reform in summer at the earliest if not only in autumn of the following year. Nevertheless, initial preparations were made at the bank. In January 1948, the management team in Hamburg proposed that preparations be made both in terms of staff and facilities for the huge amount of work that was expected to be involved. The bank should also stock up on a significant amount of paper, which was not easy given the paper shortage at the time. "It need not be pointed out that the small allocation which has already been causing us great problems leaves no room for manoeuvre."



The new money being issued on June 20, 1948, in Bremen.

On Sunday, June 20, 1948, the currency reform took place in the western occupied zones, the prospects of a reform throughout the whole of Germany having considerably diminished from 1947 onwards. The date of "Day X" was not fixed until June 2, and for obvious reasons was kept secret as long as possible. Only shortly before the date did information gradually filter through and completely paralyze economic life. On June 19, all the newspapers were dominated by the issue of the currency reform; in many cases, special editions were published on the subject. It was another day of busy activity on the black market. Everyone developed their own strategy of how to best manage the upcoming monetary shift. "On the Hamburg black market, prices rose by the hour on Saturday. One passer-by who was offered a pound of butter for 800 Reichsmarks by a black-market dealer took the packet and slapped it right into the middle of the dealer's face," reported the *Frankfurter Neue Presse*. A British paper wrote that in Germany Europe's strongest currency was being destroyed – a reference to the cigarette currency. The mood on the stock exchanges was nervous and this was reflected in a decrease in trading and some sharp price movements.

Looking back, this Sunday was glorified as a magical date signaling an economic comeback, and indeed most of those who received new money that day perceived it as a decisive step. Every citizen received for 60 Reichsmarks an initial allowance of 40 D-Marks, and a few weeks later a further 20 D-Marks. The new money came from the United States, where it had been printed from October 1947 onwards and was shipped to Germany in March 1948. The banknotes were probably unique in their form: they were marked “banknote” but were not signed by the issuing central bank.



This poster from 1948 aimed at combating the black market did not mince words.

Only at the end of May was it stipulated that the food offices should start paying out the allowances, which meant that the new money could be collected at the points where the food ration cards were issued. Nevertheless, the banks had enough to do: the delivery of the cash and the conversion of the accounts created an enormous amount of work. The legal basis for the currency reform was the first law on the reorganization of the financial system of June 21, 1948, under



For a few days after June 20, 1948, it was possible to use up old stamps for a tenth of their face value. Stamps for 64 Reichspfennigs have therefore been affixed to this “printed matter” of June 22.

which the Reichsmark was replaced by the Deutsche mark to “eliminate the consequences of the currency collapse brought about by National Socialism”. The demonetized currency had to be handed in, and money held in Reichsmarks declared. In an initial ordinance, the law specified only the principles of the new monetary system and measures necessary in the first few days. The regulations resulting from this, some of them decisive for success, were announced only gradually. This law was followed by four others, accompanied by numerous implementing ordinances, which kept hosts of legal specialists busy for decades. What was considered to be particularly radical was the term deposit law of October 1948, which

#### Managing the loans

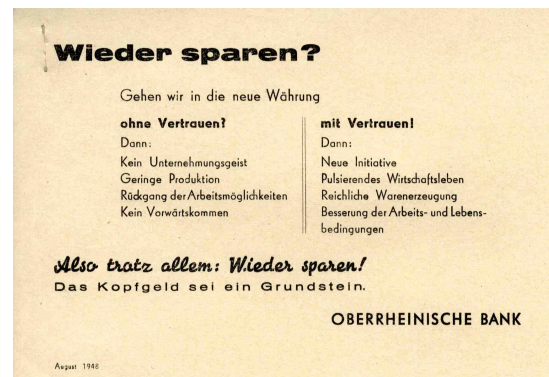
*After expiry of the seven-day blocking period pursuant to Section 17 of the Currency Act, demands from industry for working capital loans at short notice will come in thick and fast. Only if every effort is made will the credit organization be able to cope with these requirements, almost all of them requiring quick decisions. The success of the currency reform will largely depend on whether financial institutions are able to channel loans to where they can be put to the best use from a macro-economic perspective, i.e. where they serve to keep the movement of goods and production going. On no account may loans be granted for maintaining warehouses and stocks of raw materials, auxiliary supplies and unfinished goods that are not essential for operations.*

Circular by the Land Central Bank of Lower Saxony, June 25, 1948

slashed the claims of financial asset holders – all that remained of 100 Reichsmarks were 6.50 Deutsche marks. Many accountholders, i.e. also many small savers, saw this as a further-reaching expropriation. The further deterioration of the exchange ratio was due to the strong upsurge in prices in the weeks following June 20.

The two main factors that prevented the currency reform from failing after a few months were the sacrifice that the German public made and the help from the U.S. in the form of the Marshall plan. There was a great backlog in consumer demand after the currency shift, especially for textiles. Economic aid was therefore used for the financing of cotton imports to considerably increase production in the textile industry, rather than for food imports. In addition, the central bank system pursued a restrictive policy, which rigorously counteracted the price increases and thus established trust in the new currency.

In the Soviet occupation zone, money was exchanged directly after June 20 – using other procedures and without creating a



It was not easy to promote the idea of saving in August 1948. Oberrheinische Bank – Deutsche Bank's successor in Baden – attempted to do so using this advertising flyer.

myth. West Berlin followed the West German regulations some time later. Some of the radical aspects of the currency reform were moderated over time, for instance through the 1953 post-currency reform compensation act. Today, Reichsmark accounts can no longer be converted, since the 1975 currency conversion termination act set June 30, 1976, as the last date for conversion.

## Lost & Found

### Injustice

“The German people showed an unparalleled willingness to make sacrifices and were ready to bear the great burdens necessary to meet the requirements of the Empire; due to the political rifts and the self-interest of individual groups, the financial laws have, however, been given a form that is considered by the majority of German citizens to be unjust. In particular, higher charges have been adopted for income from joint stock corporations, which was previously already taxed twice

[...]. Only in rare instances are the burdens laid upon the great capitalists, who do not require the corporate form; but, as a rule, they are borne by the moderate and smaller fortunes, which are consolidated by the modern stock company into powerful units. This tax legislation is beginning to force economic enterprises to seek refuge abroad, or to look for other, though less suitable, forms of organization.”

(Deutsche Bank, Annual Report 1909)