Inflation: The Road to Chaos

ECONOMICS FOCUS  Inflation is defined as an increase in prices combined with a decrease in the value of money. If not controlled, inflation can lead to economic chaos.

As you read think about what it would be like if prices of common items such as food went up—every day.

At the end of World War I, Great Britain and France insisted that Germany pay all Allied damages and the costs of fighting the war. This included millions of dollars owed to the United States for loans of money and materials. The Treaty of Versailles had required Germany to make an immediate payment of $5 billion. Germany also had to give up part of its merchant marine fleet, build ships for the Allies, and provide livestock, railway equipment, and coal. Even these adjustments, however, did not equal the Allies’ costs and debts.

In 1921 a special commission called for Germany to pay $33 billion in reparations. This figure was four times what the United States thought Germany could handle. American leaders believed that such large payments would cripple the German economy. But the war had been devastating for European nations, and they were determined to make Germany pay all reparations.

Since the German government had no way to make the payments, it began to print more money. When a government issues more money than is needed to buy goods and services, the prices of those goods and services rise. This is known as inflation. Eventually money becomes worthless as the amount of it in circulation rises to abnormal levels. This is known as hyperinflation.

In the 12-month period between July 1922 and June 1923, inflation in Germany reached 18,000%. Prices of consumer goods went up so quickly that the cost of a cup of coffee rose as much as 40% while a customer was drinking it! People tried to spend their pay immediately, because by the end of the day the money would be worth much less. Eventually, the German mark was worth so little that it took tens of thousands to buy a loaf of bread. People carried marks in wheelbarrows when they shopped. Marks were so worthless that children played with them like toys.
The table below shows the exchange of money between European countries and the United States from 1924 to 1931. Use the data in the table to create a bar graph in the grid that follows.

**Payments Received and Made by European Allies**

<table>
<thead>
<tr>
<th>Allied Country</th>
<th>Received from Germany</th>
<th>Paid to the United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Britain</td>
<td>$564.9 million</td>
<td>$1,122.1 million</td>
</tr>
<tr>
<td>France</td>
<td>$1,426 million</td>
<td>$220.8 million</td>
</tr>
<tr>
<td>Italy</td>
<td>$203.2 million</td>
<td>$33 million</td>
</tr>
<tr>
<td>Belgium</td>
<td>$182.2 million</td>
<td>$39.8 million</td>
</tr>
</tbody>
</table>

Place the names of the four European Allies in the appropriate boxes along the bottom of the graph. Draw one bar for payments received from Germany, and a second bar for payments made to the United States. Color one bar for each country to distinguish payments received from payments made. Make a key to explain the colors. Remember to give your graph a title.
WHAT DID YOU LEARN?

1. To what country did Germany pay the most in reparations?

2. What was the total amount Germany paid to other European countries?

3. What was the total amount received by the United States?

4. What is inflation?

5. Critical Thinking: Evaluating After World War II, the Allies, particularly the United States, rebuilt Germany instead of punishing it. How do you think this helped Germany to become the democracy it is today?