

# Introduction

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When two journalists of *Bild*, Germany's best-selling tabloid, arrived in March 2012 at the European Central Bank (ECB) to interview its president, they brought with them a special gift. It was a *Pickelhaube*, or Prussian military helmet, dating from the time of the Franco-Prussian War.<sup>1</sup> The present, the journalists explained, was to remind Mario Draghi, an Italian, that the newspaper had deemed him back in 2011 as the 'most Germanic' of candidates in the race for the ECB's top position. According to *Bild*, the manner in which Draghi pursued his career demonstrated that he was imbued with what the tabloid saw as 'Prussian virtues'.<sup>2</sup> This fact overcame his problematic nationality – at least in the eyes of *Bild* – and made him the ideal man for the job.<sup>3</sup>

In the photograph published alongside the interview, Draghi appeared to be delighted with the gift. It signalled to him the approval of one of Germany's most powerful media outlets – and at a time when the euro-zone was reeling from an economic crisis. Commenting on the present, the central banker noted that 'the Prussian is a good symbol for the most important task of the ECB: maintaining price stability and protecting European savers'. Furthermore, Germany served as a 'model' for both Europe and its central bank. In part, this exemplary role stemmed from how the country took lessons from its troubled monetary past and applied them towards the goal of economic stability.<sup>4</sup>

<sup>1</sup> 'Interview mit EZB-Chef Mario Draghi zur Euro-Krise: "Deutschland ist ein Vorbild"', *Bild*, 22 Mar. 2012. See [www.bild.de/politik/ausland/mario-draghi/deutschland-ist-ein-vorbild-23270668.bild.html](http://www.bild.de/politik/ausland/mario-draghi/deutschland-ist-ein-vorbild-23270668.bild.html). Last accessed on 20 December 2018.

<sup>2</sup> Quoted in 'Chancen für "Super-Mario" steigen', *Bild*, 11 May 2011. See [www.bild.de/politik/ausland/mario-draghi/mario-draghi-neuer-ezb-chef-17844972.bild.html](http://www.bild.de/politik/ausland/mario-draghi/mario-draghi-neuer-ezb-chef-17844972.bild.html). Last accessed on 20 December 2018.

<sup>3</sup> The tabloid's endorsement came only after Germany's candidate, the Bundesbank president Axel Weber, had let it be known that he was withdrawing from the race. Refer to 'So deutsch ist der neue EZB-Chef', *Bild*, 29 Apr. 2011. See [www.bild.de/geld/wirtschaft/mario-draghi/ist-neuer-ezb-chef-17630794.bild.html](http://www.bild.de/geld/wirtschaft/mario-draghi/ist-neuer-ezb-chef-17630794.bild.html). Last accessed on 20 December 2018.

<sup>4</sup> 'Interview mit EZB-Chef Mario Draghi zur Euro-Krise', *Bild*, 22 Mar. 2012.

‘The Germans had terrible experiences with inflation in the twentieth century’, Draghi said. ‘It does away with value and makes forecasting impossible. More still – inflation can downright destroy the society of a country.’<sup>5</sup> To be dead set against inflation, to be for a strong currency, and above all, to be independent of politics – these were indeed ‘German virtues’, he observed, and they were virtues that every European central banker should strive towards.<sup>6</sup>

The symbolism of the encounter provokes interest. And indeed, some questions come to mind. Why did the journalists of a German newspaper deem it fitting to give an Italian central banker a Prussian military helmet, something that is usually associated with militarism? Why was such a gift taken as a compliment? Why is it important today that one appears ‘Germanic’ as a central banker? And why was Draghi himself keen to evoke the lessons of Germany’s experience with inflation?

These questions give rise to three brief points. First, to an extent at least, the ECB president’s comments demonstrated that he was quite aware of his target audience. By evoking German history, Draghi was appealing to the readership of the tabloid newspaper, explaining the ECB’s duties in terms an average German would understand. Second, though, and perhaps more indirectly, the central banker was paying tribute to the intellectual debt that the ECB owes the Deutsche Bundesbank, the central bank of West Germany, and later, a reunified Germany. Amid heated political debates surrounding the steps towards economic and monetary union during the 1980s and early 1990s, the structure and institutions of the Bundesbank emerged triumphant as providing the model for a European monetary authority.<sup>7</sup>

Yet it is perhaps the third point that is the most intriguing. Simply put, to be seen today in financial circles as a ‘Germanic’ central banker is treated as a very good thing indeed. We have reached the point where such an image has almost become a caricature in the media. The German central banker: conservative, independent and not a smile to be seen. If there was a punch bowl at a party, the German central banker would be the first to take it away. No doubt, today’s reputation stems in large part from the performance of the Bundesbank. West German central bankers were among the most successful in tackling inflation in the decades that

<sup>5</sup> Ibid.      <sup>6</sup> Ibid.

<sup>7</sup> See, among others, John Singleton, *Central banking in the twentieth century* (Cambridge, 2011), pp. 262–4; David Marsh, *The euro: the battle for the new global currency* (Southampton, 2011), pp. 138–9; and Carl-Ludwig Holtfrerich, ‘Monetary policy in Germany since 1948: national tradition, international best practice or ideology?’, in Jean-Philippe Touffut (ed.), *Central banks as economic institutions* (Cheltenham, 2008), pp. 36–46.

followed the end of the Second World War.<sup>8</sup> To be seen as a ‘Germanic’ central banker, then, is to be seen as being good at your job. No wonder Draghi took the compliment.

But is that all? The appearance of the *Pickelhaube* hints at an image that is more deeply rooted, an image that draws upon a past pre-dating the achievements hard won during the post-war era. Taking a step back, one can see the Prussian military helmet as something entwined with the story of the German nation, and its people, since the foundation of the Second Reich back in 1871.<sup>9</sup> What story did the *Pickelhaube* tell, however?

Germany experienced two inflations in the first half of the twentieth century, both triggered by exorbitant government spending.<sup>10</sup> The first episode was the hyperinflation of 1922–3, which occurred during the Weimar Republic.<sup>11</sup> Wheelbarrows filled to the brim with cash; little children standing on the pavement, building small castles with thick wads of banknotes. We have all seen these photographs. Indeed, the hyperinflation still commands interest to this day, with popular works emerging (and re-emerging) on bookshop shelves in recent years.<sup>12</sup>

<sup>8</sup> Refer, for instance, to Andreas Beyer, Vitor Gaspar, Christina Gerberding and Otmar Issing, ‘Opting out of the Great Inflation: German monetary policy after the break down of Bretton Woods’, *European Central Bank: Working Paper Series*, No. 1020 (2009), pp. 6–8.

<sup>9</sup> For more on the cultural considerations of the *Pickelhaube*, and its place in German history, see Jakob Vogel, ‘Die Pickelhaube’, in Etienne François and Hagen Schulze (eds.), *Deutsche Erinnerungsorte, Band II* (Munich, 2001), pp. 299–314.

<sup>10</sup> Christoph Buchheim offers a succinct overview of Germany’s monetary history in the twentieth century. See Christoph Buchheim, ‘Von altem Geld zu neuem Geld. Währungsreformen im 20. Jahrhundert’, in Reinhard Spree (ed.), *Geschichte der deutschen Wirtschaft im 20. Jahrhundert* (Munich, 2001); see also Otto Pfeleiderer, ‘Die beiden großen Inflationen unseres Jahrhunderts und ihre Beendigung’, in Peter Hampe (ed.), *Währungsreform und Soziale Marktwirtschaft: Rückblicke und Ausblicke* (Munich, 1989).

<sup>11</sup> The best accounts of the German hyperinflation remain Constantino Bresciani-Turroni, *The economics of inflation: a study of currency depreciation in post-war Germany* (London, 1937), Gerald D. Feldman, *The great disorder: politics, economics, and society in the German inflation 1914–1924* (Oxford, 1996), and Carl-Ludwig Holtfrerich, *The German inflation, 1914–1923: causes and effects in international perspective* (Berlin, 1986). The classic references in the economics field are Thomas J. Sargent and Neil Wallace, ‘Expectations and the dynamics of hyperinflation’, *International Economic Review*, Vol. 14, No. 2 (1973); and Thomas J. Sargent, ‘The demand for money during hyperinflations under rational expectations: 1’, *International Economic Review*, Vol. 18, No. 1 (1977).

<sup>12</sup> See Frederick Taylor, *The downfall of money: Germany’s hyperinflation and the destruction of the middle class* (London, 2013). Adam Fergusson’s 1975 study, *When money dies*, was republished again in 2010. Refer to Adam Fergusson, *When money dies: the nightmare of the Weimar collapse* (London, 1975); and Adam Fergusson, *When money dies: the nightmare of deficit spending, devaluation, and hyperinflation in Weimar Germany* (New York, 2010).

The lesser-known second inflation, however, was a more gradual one, occurring before and during the Second World War. It was a ‘repressed’ inflation, characterised by price controls, empty shelves and a flourishing black market.<sup>13</sup> Though they were different creatures, both inflations ended with the same result: the currency had become worthless as a medium of exchange, unit of account and store of value.

The post-war lessons that emerged from these two monetary catastrophes were apparently clear – and indeed, Draghi had already outlined them in his interview with *Bild*: one should be dead set against inflation; one should be for a strong currency; and one should support the independence of the central bank – a central bank that would never again allow its printing presses to be abused by political interference. It is in this context, then, that we should view the *Pickelhaube*. With respect to money, the Prussian military helmet symbolises a cultural mindset: headstrong, independent and all too informed by the painful lessons of German history.

Of course, Draghi was not alone in expressing these remarks. The central banker was merely repeating a historical narrative that has persisted for decades in the media. Indeed, this narrative has experienced a revival since the outbreak of the eurozone crisis. In 2010, for example, *The Economist* argued that,

Germany’s interwar experience with hyperinflation famously created a political climate amenable to [the] rise of Adolph [*sic*] Hitler and generated sufficient national trauma that the German central bank (and its descendent, the ECB) has ever since focused first, second and last on keeping inflation well in check.<sup>14</sup>

In 2011, *Spiegel Online*, Germany’s leading online media outlet, widened this point to encompass the German population. ‘For the Bundesbank’, the news website observed, ‘it has always been taboo to finance the state by purchasing its sovereign bonds’. It continued:

<sup>13</sup> Historians often disagree as to the timing and sequence of the second inflation. Some observers describe it as the ‘Hitler’ inflation, with its roots in the Third Reich and ending in 1945; while others define it as continuing into the post-war period – in other words, also occurring under the watch of the Allied military authorities. This book views the origins of the second inflation as dating back to 1936, noting the currency’s gradual and then absolute demise by 1945. After this year, the reichsmark was replaced by a barter exchange economy, in which the prices of goods largely remained stable. The historian Alan Kramer flatly rejects the notion of a ‘post-war’ inflation. See Alan Kramer, *The West German economy, 1945–1955* (Oxford, 1991), p. 2.

<sup>14</sup> ‘Inflation hawks: once bitten, twice hawkish’, *The Economist*, 4 Mar. 2010. See [www.economist.com/blogs/freeexchange/2010/03/inflation\\_hawks](http://www.economist.com/blogs/freeexchange/2010/03/inflation_hawks). Last accessed on 20 December 2018.

Behind this belief was the terrifying example of its predecessor, the Reichsbank, which had printed money with abandon in the 1920s in order to support the budget of the Weimar Republic. The result was a hyperinflation that has become deeply entrenched in the collective memory of Germans.<sup>15</sup>

Such lines of argument are often found in the academic literature too – particularly with reference to the Bundesbank Law of 1957, a piece of legislation that enshrined the independence of the West German central bank. ‘Inflation destroyed the value of money in Germany twice during this century’, observed Ellen Kennedy at the turn of the millennium.

The national traumas associated with the great inflation of the 1920s and with the years immediately following Germany’s defeat in 1945 created a powerful political culture in favor of monetary stability that informed the spirit of the Bundesbank Act and can still function today as a reservoir of support for the Bank’s policies.<sup>16</sup>

Perhaps it is Otmar Issing, though, the former chief economist of the Bundesbank, and later chief economist of the ECB, who is most associated with this argument. The central bank’s task of safeguarding the currency ‘reflects twentieth century German experience of hyperinflation, which twice within a generation destroyed the value of the currency’, he notes. ‘The same experience motivated the institution of strict independence from government.’<sup>17</sup>

Inflation, ‘trauma’, and the ‘spirit’ of the Bundesbank Law. The four extracts cited above hint at the extent to which the post-war central bank’s independence is closely associated with the experiences of the inter-war era; the argument being that West Germans transformed the turbulent events prior to 1945 into edifying lessons for a post-war republic, ensuring that their central bankers would have the power to say ‘no’ to government demands for financing. The lessons stemming from Germany’s troubled inter-war era, as embodied in the Bundesbank Law, and as expressed by Draghi, seem obvious today. They are rarely challenged. But an air of inevitability hangs over such arguments – and they ignore some important points.

<sup>15</sup> ‘Breaking taboos: concerns mount in Germany over ECB bond buys. Part 2: we cannot give way to panic’, *Spiegel Online*, 15 Aug. 2011. See [www.spiegel.de/international/spiegel/breaking-taboos-concerns-mount-in-germany-over-ecb-bond-buys-a-780258-2.html](http://www.spiegel.de/international/spiegel/breaking-taboos-concerns-mount-in-germany-over-ecb-bond-buys-a-780258-2.html). Last accessed on 20 December 2018.

<sup>16</sup> Contrast this statement concerning the timing of the second inflation to the viewpoint of Kramer in footnote 13. See Ellen Kennedy, ‘The Bundesbank’, *German Issues*, Vol. 19 (1998), p. 2.

<sup>17</sup> Otmar Issing, ‘Central bank independence and monetary stability’, *Institute of Economic Affairs Occasional Paper*, No. 89 (1993), p. 67.

For starters, the Reichsbank was actually independent of government instruction during the hyperinflation.<sup>18</sup> The central bank became independent in May 1922 at the behest of foreign pressure, and as part of a wider deal concerning the alleviation of German reparations payments that were imposed after the First World War. And following the hyperinflation, the Reichsbank, under its new president Hjalmar Schacht, became an overtly political actor, and a continual thorn in the side of various Weimar governments for the remainder of the 1920s.

The central bank was independent, too, during the twilight years of the Weimar Republic, when it embarked on deflationary measures amid efforts to stay on the gold standard – efforts that helped to accelerate Germany's descent into depression.<sup>19</sup> Deflation aggravated mass unemployment in the economy, which in turn radicalised an electorate and propelled the Weimar Republic to its fateful end with Hitler's ascent to the chancellery.<sup>20</sup>

Of course, this is not to suggest that the independent Reichsbank, by dint of its own decisions, *caused* the hyperinflation and deflation. Far from it, and indeed, to make such an argument would be both misleading and naively simplistic. The causes behind the events of 1922–3 can be lain squarely at the government's door, as well as the socio-economic consequences arising from the First World War. And with respect to the Great Depression, the factors sparking this global phenomenon are as complex as they are international in nature.<sup>21</sup> It should also be noted that, during both the hyperinflation and deflation, the independent

<sup>18</sup> This is a point repeatedly acknowledged in the literature. But it remains overlooked in the more popular accounts of the hyperinflation. The Reichsbank's policy during the hyperinflation is a 'classic counter-example' to the idea that an independent central bank is automatically stability orientated, as the historian Dieter Lindenlaub notes. For the emergence and evolution of the Reichsbank's independence during the Weimar Republic, see Simone Reinhardt, *Die Reichsbank in der Weimarer Republik. Eine Analyse der formalen und faktischen Unabhängigkeit* (Frankfurt am Main, 2000). See also Dieter Lindenlaub, 'Die Errichtung der Bank deutscher Länder und die Währungsreform von 1948: Die Begründung einer stabilitätsorientierten Geldpolitik', in Dieter Lindenlaub, Carsten Burhop and Joachim Scholtyseck (eds.), *Schlüsselergebnisse der deutschen Bankengeschichte* (Stuttgart, 2013), p. 310.

<sup>19</sup> Harold James, 'The Reichsbank 1876–1945', in Deutsche Bundesbank (ed.), *Fifty years of the Deutsche Mark: central bank and the currency in Germany since 1948* (Oxford, 1999), pp. 29–31. See also Harold James, *The German slump: politics and economics 1924–1936* (Oxford, 1986).

<sup>20</sup> The topic of mass unemployment during the Weimar Republic has been left relatively unexamined. An exception, however is the volume edited by Richard J. Evans and Dick Geary. See Richard J. Evans and Dick Geary (eds.), *The German unemployed: experiences and consequences of mass unemployment from the Weimar Republic to the Third Reich* (London, 1987).

<sup>21</sup> The standard account of the Great Depression remains Barry Eichengreen, *Golden fetters: the gold standard and the Great Depression* (Oxford, 1992). A more recent

Reichsbank was, by and large, co-operating with the general direction of government policy.

In 1949, however, the year in which the Federal Republic was established, West Germans could look back on three chaotic decades of monetary history. The population had endured two inflations and one deflation. And during much of this time, the Reichsbank was legally independent from government instruction. In 1949, then, the record of central bank independence *could* be interpreted as a mixed one.<sup>22</sup> It could be challenged. And that is the key point to be made here; for as we will see, it *was* challenged.

### Monetary Mythology

‘History is the realm of choice and contingency’, notes the historian Jeffrey Herf. ‘Writing history is a matter of reconstructing the openness of past moments before choices congealed into seemingly inevitable structures.’<sup>23</sup> Today, we often view central bank independence in West Germany as an almost inevitable lesson stemming from the inter-war period. But this was not the case back in 1949. Back then, central bank independence was not synonymous with economic stability. There was no West German consensus for central bank independence at the dawn of the new republic. Rather, the topic was a controversial one, sparking a fiery public debate that lasted for seven long years. Over the decades, however, one version of history has trampled over another, and we have forgotten that ‘openness of past moments’.

Why is this important? In short, the rise of this particular interpretation of history, one that stresses the lessons of the two inflations, has lent a sheen of historical legitimacy to the arguments of central bankers and politicians who advocate *Stabilitätspolitik* – that is, monetary and economic policies geared in support of price stability. And, as we have seen in *Bild*’s interview with Draghi, it is a version of history that has found an expression in the form of the ECB. The lessons of two inflations, once German, have now become European. But how did the dominance of these lessons come about in the first place? That is the guiding research question underlying the book at hand.

perspective is offered in Barry Eichengreen, *Hall of mirrors: the Great Depression, the Great Recession, and the uses – and misuses – of history* (New York, 2016).

<sup>22</sup> For more on the mixed record of central bank independence during the inter-war era, see Herbert Giersch and Harmen Lehment, ‘Monetary policy: does independence make a difference? – the German experience’, *ORDO*, Vol. 32 (1981).

<sup>23</sup> Jeffrey Herf, *Divided memory: the Nazi past in the two Germanys* (Cambridge, MA, 1997), preface.

This study examines the emergence and development of what I call ‘monetary mythology’, a carefully constructed historical narrative about the inter-war period of Germany that flourished in the West German public sphere following the Second World War.<sup>24</sup> It explores this myth-making by analysing how the lessons of Germany’s experience of inflation, namely the 1922–3 hyperinflation and 1936–45 inflation, became politicised in the post-war era and transformed into political weapons in support of central bank independence. In the debate surrounding the establishment of West Germany’s central bank, the country’s monetary history became a political football as central bankers, politicians, industrialists and trade unionists all vied for influence over the legal provisions grounding the future monetary authority. The debate centred on power. Who should control the lever of monetary policy in a country that suffered two inflations and one deflation within the span of a single generation? In 1949, this question provoked a variety of passionate answers.

This is not the first academic study to examine the West German central bank; nor is it the first to analyse the circumstances surrounding the emergence of its independence.<sup>25</sup> Historians such as Volker Hentschel, Christoph Buchheim and Dieter Lindenlaub, in addition to the economist Jörg Bibow, have all documented, with varying degrees of emphasis, the controversies during the early years of the West German monetary authority’s existence and the debates concerning the Bundesbank Law.<sup>26</sup> But this book is the first to stress the sheer extent to which

<sup>24</sup> This work is not the first to use the term ‘mythology’ in the sphere of central banking. For an unrelated case study on the Canadian central bank, analysed in terms of public policy, see Keith Acheson and John F. Chant, ‘Mythology and central banking’, *Kyklos*, Vol. 26, No. 2 (1973). See also Jeremy Leaman, *The Bundesbank myth: towards a critique of central bank independence* (London, 2001).

<sup>25</sup> The concept of central bank independence can be broken down into a number of smaller fields, too, from personnel independence, to functional independence, as well as financial independence. See Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 23–9.

<sup>26</sup> Volker Hentschel, ‘Die Entstehung des Bundesbankgesetzes 1949–1957. Politische Kontroversen und Konflikte: Teil I’, *Bankhistorisches Archiv*, Vol. 14 (1988); and his second contribution, Volker Hentschel, ‘Die Entstehung des Bundesbankgesetzes 1949–1957. Politische Kontroversen und Konflikte: Teil II’, *Bankhistorisches Archiv*, Vol. 14 (1988); Christoph Buchheim, ‘The establishment of the Bank deutscher Länder and the West German currency reform’, in Deutsche Bundesbank (ed.), *Fifty years of the Deutsche Mark: central bank and the currency in Germany since 1948* (Oxford, 1999); and Christoph Buchheim, ‘Die Unabhängigkeit der Bundesbank. Folge eines amerikanischen Oktrois?’, *Vierteljahrshefte für Zeitgeschichte*, Vol. 49, No. 1 (2001); Jörg Bibow, ‘On the origin and rise of central bank independence in West Germany’, *European Journal of the History of Economic Thought*, Vol. 16, No. 1 (2009); and Jörg Bibow, ‘Zur (Re-)Etablierung zentralbankpolitischer Institutionen und Traditionen in Westdeutschland: Theoretische Grundlagen und politisches Kalkül (1946–1967)’, in

the disputed record of the Reichsbank formed the troubled background to such discussions.<sup>27</sup>

The Bundesbank Law, a ‘foundational law of the social market economy’, to use the words of Hentschel, set the stage for this power struggle over the monetary authority.<sup>28</sup> According to the West German constitution, the Bundesbank Law was to establish a federal central bank, one that could ideally provide for a more prosperous and stable future. So why, then, were West German elites so fixated on the past? In short, the record of the inter-war Reichsbank constituted the overwhelming reference point for the public debate surrounding the Bundesbank Law. Of course, contemporary examples, such as the Federal Reserve System of America, were also important. But they made for a distant second place in terms of how frequently they were evoked during these discussions. Where did the Reichsbank go wrong? What did it get right?

References to the Reichsbank’s history, both positive and negative, grounded political arguments aimed at influencing both the institutions and structure of the future monetary authority. On the one hand, supporters of central bank independence pointed to the lessons of Germany’s two inflations. These suggested that the Bundesbank should retain a sizeable degree of independence from government influence. After all, could the Federal Republic really risk letting the state exert control over the central bank after two disastrous inflations? The somewhat inconvenient fact that the Reichsbank was independent during the hyperinflation was almost always overlooked.

Political opponents of monetary autonomy, on the other hand, fell back upon their own lessons of the inter-war era. They focused on the

Christian Scheer (ed.), *Die deutschsprachige Wirtschaftswissenschaft in den ersten Jahrzehnten nach 1945: Studien zur Entwicklung der Ökonomischen Theorie, Band XXV* (Berlin, 2010). For the works of Dieter Lindenlaub, see Dieter Lindenlaub, ‘Deutsches Stabilitätsbewußtsein: Wie kann man es fassen, Wie kann man es erklären, welche Bedeutung hat es für die Geldpolitik’, in Bernhard Löffler (ed.), *Die kulturelle Seite der Währung. Europäische Währungskulturen, Geldwerterfahrungen und Notenbankssysteme im 20. Jahrhundert* (Munich, 2010); and Lindenlaub, ‘Die Errichtung der Bank deutscher Länder und die Währungsreform von 1948’. Lindenlaub also wrote ‘Der Zentralbankrat vor fünfzig Jahren’, *Monatsbericht der Deutschen Bundesbank*, Mar. 1998.

<sup>27</sup> By focusing on the elements of continuity that remained in the post-war era, however, Theo Horstmann also touches on the legacy of the Reichsbank. See Theo Horstmann, ‘Kontinuität und Wandel im deutschen Notenbanksystem. Die Bank deutscher Länder als Ergebnis alliierter Besatzungspolitik nach dem Zweiten Weltkrieg’, in Theo Pirker (ed.), *Autonomie und Kontrolle. Beiträge zur Soziologie des Finanz- und Steuerstaats* (Berlin, 1989).

<sup>28</sup> Hentschel, ‘Die Entstehung des Bundesbankgesetzes 1949–1957. Politische Kontroversen und Konflikte: Teil I’, p. 5.

record of the Reichsbank during the Great Depression, linking its deflationary policies to the emergence of mass unemployment and, consequently, the rise of National Socialism. Could the West German state once again allow unelected officials to control a powerful lever of economic policy? And was it not the case, too, that the independent Reichsbank had become a controversial political player under the leadership of Schacht in the 1920s? With these kinds of lessons in mind, economic stability was not just about safeguarding the currency, but about promoting policies of full employment too. Both supporters and opponents of central bank independence presented skewed historical arguments geared along the lines of political interest.

Similarly, West German elites approached the question of the future central bank's structure in historical terms. Should the Bundesbank be a decentralised institution, one that reflected the federalised structure of the young republic? Or should it adopt a more centralised form, akin to the inter-war Reichsbank?

The public debate surrounding the Bundesbank Law was complicated by the fact that West Germany already *had* a central bank in the form of the Bank deutscher Länder (BdL).<sup>29</sup> This monetary authority pre-dated the foundation of the West German state by well over a year, having been established in early 1948. The BdL, based in Frankfurt, was a by-product of its era. It was a creature of the occupation authorities – more specifically, the American and British ones. Indeed, this fact has led the literature concerning the early years of the post-war central bank to become somewhat lopsided in emphasis. Numerous studies have concentrated on the foreign origins of the West German central bank system, and in doing so, they underplay the subsequent, domestic discussions centring on the German monetary past, as well as their sizeable impact on the

<sup>29</sup> For more studies concerning the BdL, see Monika Dickhaus, *Die Bundesbank im westeuropäischen Wiederaufbau: die internationale Währungspolitik der Bundesrepublik Deutschland 1948 bis 1958* (Munich, 1996); Monika Dickhaus, 'The foster-mother of "The bank that rules Europe": the Bank deutscher Länder, the Bank of England and the Allied Banking Commission', in Alan Bance (ed.), *The cultural legacy of the British occupation in Germany* (Stuttgart, 1997); Helge Berger, *Konjunkturpolitik im Wirtschaftswunder: Handlungsspielräume und Verhaltensmuster von Bundesbank und Regierung in den 1950er Jahren* (Tübingen, 1997); Theo Horstmann, 'Die Entstehung der Bank deutscher Länder als geldpolitische Lenkungsinstanz in der Bundesrepublik Deutschland', in Hajo Riese and Heinz-Peter Spahn (eds.), *Geldpolitik und ökonomische Entwicklung. Ein Symposium* (Regensburg, 1990); and Deutsche Bundesbank (ed.), *Geheimrat Wilhelm Vocke, Hüter der Währung, Zum hundertsten Geburtstag am 9. Februar 1986* (Frankfurt am Main, 1986).

Bundesbank Law.<sup>30</sup> This book seeks to redirect that focus towards the record of the Reichsbank.

The BdL was subject to the instructions and influence of the Western Allied powers. But the Allies made it independent of German political instruction. Only the German states could exert an indirect form of influence in so far as each one could appoint the president of its own state central bank. The presidents of the state central banks formed the central bank council, the decision-making body of the BdL. The central bank council convened every fortnight in Frankfurt and decided policy by majority vote.

The BdL, then, was established at a time when there was no federal state of which to speak. As a result, the Bundesbank Law was viewed by some political circles in Bonn, the new political capital of West Germany, as an ideal opportunity to assert federal influence over the future central bank. Among these men were Konrad Adenauer, the first chancellor of West Germany, and his influential finance minister, Fritz Schäffer. And they were not alone. According to Hentschel, '[p]oliticians of all parties were of the view that the complete independence of the Bank deutscher Länder was a mistake of occupation policy in need of correcting'.<sup>31</sup> Where they disagreed, however, was over the manner in which, and the extent to which, Bonn should be able to influence the decisions taken in Frankfurt.

But such federal ambitions were met with fierce resistance from both the BdL and the individual states. The BdL wanted to protect its independence when it was to be transformed into the Bundesbank; and the state governments jealously sought to guard what little influence they had over the monetary authority. As Bibow convincingly argues, the Bundesbank Law became an arena in which a three-way power struggle emerged.<sup>32</sup> In this respect, the Allies played an indirect but important role in creating the circumstances that led to this tripartite tug of war. There are two points to note here. First, they created a central bank that predated the Federal Republic. As such, the monetary authority

<sup>30</sup> See, for instance, Buchheim, 'The establishment of the Bank deutscher Länder and the West German currency reform'; see also Karl Häuser, 'Gründung der Bank deutscher Länder und Währungsreform', in Hans Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945* (Frankfurt am Main, 1998); and Eckhard Wandel, *Die Entstehung der Bank deutscher Länder und die deutsche Währungsreform 1948* (Frankfurt, 1980).

<sup>31</sup> Hentschel, 'Die Entstehung des Bundesbankgesetzes 1949–1957. Politische Kontroversen und Konflikte: Teil I', p. 10.

<sup>32</sup> As best outlined in Bibow, 'On the origin and rise of central bank independence in West Germany'; and, in more extensive detail, Bibow, 'Zur (Re-)Etablierung zentralbankpolitischer Institutionen und Traditionen in Westdeutschland'.

remained independent of any federal influence when West Germany was established. And second, West German elites knew that, at some point in the near future, the Allies would transfer monetary sovereignty back to them, giving the West German state the opportunity to decide what form that sovereignty took. The BdL, the federal government and the various state governments all vied to influence the provisions of the Bundesbank Law in a manner that best reflected their own respective interests.

What the literature overlooks, however, is the manner in which historical narratives of Germany's monetary past were forged amid this political power struggle. While the Federal Republic has been the subject of a rich wealth of cultural studies since the 1990s, few if any cultural historians have turned their sights towards the central bank or the wider question of Germany's historical experience of inflation.<sup>33</sup> This is somewhat surprising, given that both the BdL and Bundesbank presided over the West German *deutschmark*, a currency that went on to assume an important, symbolic role in a society where political forms of nationalism remained taboo.<sup>34</sup> Instead, the field of cultural history has been dominated by themes of genocide, remembrance, politics and gender.<sup>35</sup>

Nevertheless, with the help of some important findings in the field of cultural history, we can discern how West Germans came to understand and interpret their troubled experiences during the Third Reich and the Second World War.<sup>36</sup> In the late 1940s and 1950s, West Germans did

<sup>33</sup> This is not the case, however, for East Germany. Jonathan Zatin has written eloquently about the *ostmark* and its role in the East German economy and society. See Jonathan R. Zatin, *The currency of socialism: money and political culture in East Germany* (New York, 2007).

<sup>34</sup> Though not a cultural historian, Harold James has written about the role of the *deutschmark* in West German society. See Harald James, 'Die D-Mark', in Etienne François and Hagen Schulze (eds.), *Deutsche Erinnerungsorte, Band II* (Munich, 2001). More recently, the *deutschmark* has been examined, however briefly, by Neil MacGregor in his work on Germany. See Neil MacGregor, *Germany: memories of a nation* (London, 2014), pp. 499–506.

<sup>35</sup> An exception is S. Jonathan Wiesen, who focuses on West German industry and documents its efforts to disassociate itself from the Nazi past. See, for example, Herf, *Divided memory*; Norbert Frei, *Vergangenheitspolitik: Die Anfänge der Bundesrepublik und die NS Vergangenheit* (Munich, 1996); Axel Schildt, *Moderne Zeiten: Freizeit, Massenmedien und 'Zeitgeist' in der Bundesrepublik der 50er Jahre* (Hamburg, 1995); Ulrich Brochhagen, *Nach Nürnberg: Vergangenheitsbewältigung und Westintegration in der Ära Adenauer* (Hamburg, 1994); and Robert Moeller, *Protecting motherhood: women and the family in the politics of postwar West Germany* (Berkeley, 1993). For Wiesen's work, see S. Jonathan Wiesen, *West German industry and the challenge of the Nazi past, 1945–1955* (London, 2001).

<sup>36</sup> See Hanna Schissler (ed.), *The miracle years: a cultural history of West Germany, 1949–1968* (Princeton, 2001); Richard Bessel and Dirk Schumann (eds.), *Life after death: approaches to a cultural and social history of Europe during the 1940s and 1950s* (Cambridge, 2003); Robert Moeller (ed.), *West Germany under construction: politics,*

not shy away from their past; far from it, they embraced their experiences. But they did so on their own selective terms, and in manners that emphasised their own suffering.<sup>37</sup>

But if West Germans did not turn their backs on recent events, and instead sought to discern meaning from them, where did contemporary conceptions of Germany's monetary history, and their implications for the Bundesbank Law, fit within this wider perspective? The cultural historian Robert Moeller has written of 'war stories'; in other words, the emergence in West Germany of historical narratives concerning the Germans' collective suffering during the Second World War.<sup>38</sup> This book argues that West German elites did something quite similar in the monetary realm; one can even write of 'inflation stories' and 'deflation stories'. Central bankers, politicians, industrialists, trade unionists and other post-war elites all reverted to the troubled and contradictory lessons of the inter-war period and put them to political use along grounds of self-interest. And in 1949 there was no certainty as to which version of the past would triumph with respect to the Bundesbank Law.

To trace the roots of the central bank's monetary mythology, we journey back to Nuremberg in 1946; for it was at the Nuremberg trials that the first outline of what later came to be monetary mythology was forged. There are two points to note here. First, the former president of the Reichsbank, Schacht, stood trial as a war criminal. He had become a leading personality in the Third Reich following the collapse of the Weimar Republic. At the helm of the Reichsbank, Schacht was known as 'Hitler's magician', conjuring financial instruments that allowed the dictator to finance his rearmament ambitions.<sup>39</sup> But in the dock at Nuremberg, Schacht was accused of helping to prepare the financing behind a disastrous war that destroyed the European continent. It was not just the record of Schacht that stood on trial, however. It was at Nuremberg, too, that the record of the inter-war Reichsbank was first scrutinised in detail.

This is where the second point comes in. Schacht, his lawyer and defence witnesses constructed a version of the past that portrayed the

*society, and culture in the Adenauer era* (Ann Arbor, 1997); and Uta G. Poiger, *Jazz, rock, and rebels: Cold War politics and American culture in a divided Germany* (London, 2000), among other works.

<sup>37</sup> As best outlined in Robert Moeller, *War stories: the search for a usable past in the Federal Republic of Germany* (Berkeley, 2001).

<sup>38</sup> *Ibid.*

<sup>39</sup> The nickname was a contemporary one. See Norbert Mühlen, *Hitler's magician: Schacht. The life and loans of Dr. Hjalmar Schacht*, trans. E. W. Dickes (London, 1938).

finance man in the finest light. At the centre of these efforts lay the Reichsbank memorandum of 7 January 1939, which had been sent to Hitler. This document, signed by Schacht and the entire directorate, protested against Hitler's inflationary spending on rearmament in unusually strong terms. It sparked the circumstances in which most members of the directorate departed from the central bank, either being sacked by the dictator, or choosing to resign. The former Reichsbank president used this document to argue that he was a monetary martyr, one who sacrificed himself for the ideals of sound money. He also contended that his departure effectively spelled the end of the Reichsbank's independence, after which the central bank became a cog in the Nazi war machine. By acquitting Schacht of all charges, the Nuremberg military tribunal gave the green light to his defence team's arguments.

This episode is important. And it is important because personalities matter. Among Schacht's defence witnesses at Nuremberg was one Wilhelm Vocke, the future chairman of the BdL's directorate. The signature of Vocke, a long-time member of the Reichsbank directorate, could also be found on the January 1939 memorandum; and he was among those members of the directorate who left the central bank, having chosen to resign. The Reichsbank memorandum, which protested against the inflation in strictly financial terms, became a *moral* document at Nuremberg. And it remained a moral one thereafter in the Federal Republic. The signature of Vocke could be found on the Reichsbank memorandum; now it could be found on deutschmark banknotes, guaranteeing the credibility of each and every one.

The West German monetary authority remains one of the few institutions of German public life around which lingers a thin veneer of a *Stunde Null*, the idea of a fresh break from the past.<sup>40</sup> The BdL and Bundesbank always stressed, quite rightly too, that they were not the legal successors to the Reichsbank. As this study argues, however, there was a strong link of continuity between the inter-war Reichsbank and the BdL in the media. This is because the BdL's leadership became personified with both the central bank and the West German currency. Vocke, in particular, became the public face of the monetary authority. Politicians in parliamentary debates would come to use 'Vocke' as a byword for the BdL, while other political figures referred to the central bank as 'Vocke's tower'. By 1956, *Der Spiegel* had crowned Vocke 'chancellor of the

<sup>40</sup> The writer David Marsh, however, has also stressed levels of continuity between the inter-war and post-war central banks. See David Marsh, *The Bundesbank: the bank that rules Europe* (London, 1992).

deutschmark' on its front page.<sup>41</sup> Of course, this was despite the fact that the man had but one vote on the central bank council.

Yet twenty years before *Der Spiegel* took to calling him 'chancellor of the deutschmark', newspapers in the Third Reich were labelling Vocke 'foreign minister of the Reichsbank'. This man had a history. He was at the Reichsbank directorate table at the height of the hyperinflation and the depths of deflation. His signature helped to co-guarantee the 'value' of banknotes issued by the Reichsbank throughout the hyperinflation. Vocke was also present at the directorate meeting during which Schacht pushed through the passage of the 'Mefo' bills, the infamous financial instruments that allowed Hitler to covertly finance rearmament.<sup>42</sup>

As we will see, however, the BdL embraced Vocke's past. Indeed, the monetary authority had to. If the central bank did not, it knew that its political opponents would attack Vocke's record regardless. The Reichsbank memorandum became a corner stone in the West German central bank's monetary mythology. Vocke derived his credibility, in part, from his signature on the memorandum. It allowed the central bank and journalists to portray contemporary political struggles between Frankfurt and Bonn in historical terms. The Reichsbank memorandum went on to be published alongside a collection of Vocke's speeches; and its inclusion in the volume was even highlighted in advertisements for the book. Thus, as time progressed, Vocke was not portrayed a central banker implicated in the mistakes of the past; instead, he increasingly emerged as a monetary martyr, one of the few men who had said 'no' to Hitler. And if he could say no once, he could say no again. The central bank transformed Vocke's controversial inter-war record into an edifying lesson, embodied by his very person.

Recall, however, *Der Spiegel's* use of the term 'chancellor of the deutschmark'. When we think of the era of Adenauer, we think of the word 'sovereignty', and its gradual reclamation on the part of the West German state.<sup>43</sup> Indeed, the economic historian Werner Abelshausen, in his discussion of the 'long 1950s', characterises the era 1949–55 in part as the 'recovery of economic sovereignty'.<sup>44</sup> And certainly, under

<sup>41</sup> See Chapter 3 for more details.

<sup>42</sup> For more on Vocke's role at the Reichsbank, see Chapter 1.

<sup>43</sup> Hans-Peter Schwarz's study remains one of the best accounts of this era. See Hans-Peter Schwarz, *Die Ära Adenauer. Gründerjahre der Republik. 1949–1957 (Geschichte der Bundesrepublik Deutschland, Band 2)* (Stuttgart, 1981). More recent works include Anthony J. Nicholls, *Freedom with responsibility: the social market economy in Germany, 1918–1963* (Oxford, 1994); and James C. van Hook, *Rebuilding Germany: the creation of the social market economy, 1945–1957* (Cambridge, 2004).

<sup>44</sup> Werner Abelshausen, *Die langen Fünfziger Jahre: Wirtschaft und Gesellschaft der Bundesrepublik Deutschland 1949–1966* (Düsseldorf, 1987), p. 25.

Adenauer, the federal state made steady gains in the fields of political and economic independence during this time. But the expression ‘chancellor of the deutschmark’, and its attachment to Vocke, implied a mental boundary, a threshold of sorts. Adenauer might have been the chancellor of the West Germans, but he was not the chancellor of their currency.

Adenauer opposed the principle of central bank independence on the grounds that the constitution granted the ultimate responsibility of economic policy to parliament – not to an autonomous central bank. Yet the lessons of the two inflations worked directly against the interests of the chancellor, who, throughout his tenure in office, demonstrated a keen, wily awareness of power, and more importantly, the accumulation and maintenance of it. Political historians have yet to fully incorporate the implications of the Bundesbank Law debate in the wider context of Adenauer’s *Kanzlerdemokratie*, a form of democratic government in which the office of the chancellor played a powerful, even authoritarian role.<sup>45</sup> This study hopes, in part, to address this gap, detailing the uses of inter-war monetary history, and the construction of historical narratives that could be set against the ambitions of *Der Alte*, or ‘the old one’, as Adenauer was popularly known among West Germans. As will be shown, though, Adenauer was not the only chancellor to face this problem. The historical narratives concerning Germany’s two inflations were anti-statist by nature, and helped to fuel a suspicion of democratic governance that remained strong up until the turbulent era of the 1970s and beyond.<sup>46</sup>

While the 1970s were years of economic uncertainty, the same cannot be said for much of the 1950s and 1960s, the decades during which *Der ‘Rheinische Kapitalismus’*, or the ‘capitalism of the Rhine’, more commonly known as the German economic model, assumed much of its form.<sup>47</sup> Where does the West German central bank, and its independence, fit in the economic historiography of the so-called *Wirtschaftswunder*, or ‘economic miracle’, which saw West German living standards rise markedly throughout Abelshausen’s ‘long 1950s’? More often than not, economic historians have followed suit to Ludwig Erhard, the famous economics minister, who penned one of the first accounts of West Germany’s economic resurgence in his 1957 book, *Wohlstand für*

<sup>45</sup> For more on the *Kanzlerdemokratie*, see Arnulf Baring, *Im Anfang war Adenauer. Die Entstehung der Kanzlerdemokratie*, 2nd ed. (Munich, 1989).

<sup>46</sup> See Chapter 5 for more details.

<sup>47</sup> A detailed discussion concerning the ‘capitalism of the Rhine’ can be found in Hans Günter Hockerts and Günther Schulz (eds.), *Der ‘Rheinische Kapitalismus’ in der Ära Adenauer* (Paderborn, 2016).

*Alle, or Prosperity for all.*<sup>48</sup> In describing and discussing the ‘economic miracle’, a term he had always loathed, Erhard devoted relatively little attention to the central bank.

In Abelshauser’s classic accounts of the West German economy, too, the BdL plays a secondary, if still somewhat important role in the outplay of events.<sup>49</sup> In part, this is because Abelshauser’s argument stresses the long-run trends that propelled the growth of the West German economy, which experienced a ‘catch-up’ relative to other industrialised economies during the early post-war era.<sup>50</sup> But even in the more recent literature, which gives relatively more credit to the importance of decisions undertaken by Allied officials and West German elites, the BdL remains in the shadows, appearing briefly during the Korean crisis, but soon after fading away in the narrative.<sup>51</sup> This focus, or lack thereof, has left the central bank’s independence being treated as a ‘given’ in the more general, overarching accounts of the West German economy.

By re-examining the political debate surrounding the Bundesbank Law, and linking it to the central bank’s wider role in the economy, we begin to further understand the fragile foundations upon which the West German economic recovery initially rested. Such insights are important considering the crucial and, it should be stressed, positive role that central bank independence played throughout the economic reconstruction of the 1950s. Given that the capital market was non-existent, financing for infrastructural projects came from either the government or the BdL. And the central bank, for its part, faced significant pressure to provide deficit financing during this period. Deficit financing could have shaken the budding confidence attached to the new deutschmark.<sup>52</sup> Central bank independence bolstered confidence in the deutschmark at

<sup>48</sup> See Ludwig Erhard, *Wohlstand für Alle* (Düsseldorf, 1957). Erhard was beaten to the finish line, however, by Henry Wallich, who published an influential account some years earlier. See Henry C. Wallich, *Mainsprings of the German revival* (New Haven, 1955).

<sup>49</sup> A good example here is Werner Abelshauser, *Deutsche Wirtschaftsgeschichte seit 1945* (Bonn, 2004).

<sup>50</sup> Abelshauser’s original argument can be found in Werner Abelshauser, *Wirtschaft in Westdeutschland 1945–1948: Rekonstruktion und Wachstumsbedingungen in der amerikanischen und britischen Zone* (Stuttgart, 1975).

<sup>51</sup> See Christoph Buchheim, *Die Wiedereingliederung Westdeutschlands in die Weltwirtschaft, 1945–1958* (Munich, 1990). For more on the Korean crisis, refer to Ludwig-Erhard-Stiftung, *Die Korea-Krise als ordnungspolitische Herausforderung der deutschen Wirtschaftspolitik. Texte und Dokumente* (Stuttgart, 1986).

<sup>52</sup> As underlined by Knut Borchardt and Buchheim. See Knut Borchardt and Christoph Buchheim, ‘The Marshall Plan and key economic sectors: a microeconomic perspective’, in Charles S. Maier and Günter Bischof (eds.), *The Marshall Plan and Germany: West German development within the framework of the European Recovery Program* (New York, 1991), pp. 447–9.

the crucial moment, and the institution emerged to become an asset to the economic recovery.

Such an outcome was not immediately apparent, however. In late 1950, Schäffer, the cabinet minister responsible for drafting the Bundesbank Law, stressed the controversial policies of the independent Reichsbank during the Great Depression amid efforts to justify legal provisions that would eliminate any such autonomy for the future Bundesbank. Such views were common during the early years of the Federal Republic – though they were arguably in the minority.

Schäffer's proposals helped to spark a public debate about the Bundesbank Law. The BdL sought to influence the legislation, both behind the scenes and in the media. A number of historians, political scientists and central bankers have already made this observation.<sup>53</sup> Lindenlaub has gone so far as to recognise that the BdL used in speeches the example of the two inflations as a historical justification for central bank independence – though he mentions this point in passing, devoting a single sentence to it.<sup>54</sup> The economic historian Carl-Ludwig Holtfrerich, for his part, suggests that the West German central bank benefitted from the fact that the population was 'traumatized' by inflation when embarking on its hard-edged, export-orientated policies.<sup>55</sup> But in each and every case, such remarks have been made in brief. Only Bibow has examined the BdL's efforts in some detail, and he devotes just ten pages to the central bank's interaction with the press as part of his wider examination of the emergence of central bank independence in West Germany.<sup>56</sup> No systematic effort to date has been made to examine the central bank's use of historical narratives concerning inflation, be it behind closed curtains or in the wider media.

And indeed, any detailed discussion of the media needs an operating construct through which it can be examined. This is where the term 'public sphere' comes in, an expression that dates well beyond Jürgen

<sup>53</sup> John B. Goodman, 'Monetary politics in France, Italy, and Germany', in Paolo Guerrieri and Pier Carlo Padoan (eds.), *The political economy of European integration: states, markets and institutions* (London, 1989), pp. 196–7; Peter A. Johnson, *The government of money: monetarism in Germany and the United States* (Ithaca, 1998), p. 199; Bibow, 'On the origin and rise of central bank independence in West Germany', p. 158 (footnote); and Otmар Emminger, *D-Mark, Dollar, Währungskrisen: Erinnerungen eines ehemaligen Bundesbankpräsidenten* (Stuttgart, 1986), p. 27.

<sup>54</sup> Lindenlaub, 'Die Errichtung der Bank deutscher Länder und die Währungsreform von 1948', p. 309.

<sup>55</sup> Holtfrerich, 'Monetary policy in Germany since 1948: national tradition, international best practice or ideology?', pp. 33–4.

<sup>56</sup> Bibow, 'Zur (Re-)Etablierung zentralbankpolitischer Institutionen und Traditionen in Westdeutschland', pp. 565–76.

Habermas's influential study in 1962.<sup>57</sup> The study uses the definition of the public sphere that has been carefully outlined by Christina von Hodenberg in her work on the West German media. She defines it 'broadly as a structure of many co-existing forums in which a society selects topics for debate and negotiates patterns of interpretation, values and conflicting interests'.<sup>58</sup> Newspapers, books, radio and, later, television; platforms such as these formed the channels through which West Germany's monetary past was debated. Von Hodenberg's research has also documented in detail the shift from a consensus-based journalism, prevalent in the early 1950s, to a more critical public sphere that came to dominate the 1960s. This shift was driven by generational change – and actually pre-dates the famous '*Spiegel* affair' of 1962, a political scandal that saw editors of *Der Spiegel* arrested, and during which Franz Josef Strauß, an influential minister, was forced to resign.<sup>59</sup>

A working definition of the public sphere is important when we examine the Bundesbank in the 1960s. The study documents three episodes in and around the year 1965, occurring during the tenure of Karl Blessing, the first president of the Bundesbank.<sup>60</sup> Blessing was Schacht's protégé at the Reichsbank, and a contemporary of Vocke. His signature, too, could be found on the Reichsbank memorandum sent to Hitler in 1939, sparking the circumstances in which he resigned from the central bank. Under Blessing, then, the West German central bank leadership continued to be closely identified with the Reichsbank in the public sphere.

First, the study examines how Schacht, a tarnished figure in West Germany, emerged once again in the 1960s. The former Reichsbank

<sup>57</sup> Jürgen Habermas, *The structural transformation of the public sphere: an inquiry into a category of bourgeois society*, trans. Thomas Burger and Frederick Lawrence (Cambridge, 1993).

<sup>58</sup> See Christina von Hodenberg, 'Mass media and the generation of conflict: West Germany's long sixties and the formation of a critical public sphere', *Contemporary European History*, Vol. 15, No. 3 (2006), p. 369 (footnote); the collection of essays in Bernd Weisbrod (ed.), *Die Politik der Öffentlichkeit – die Öffentlichkeit der Politik: politische Medialisierung in der Geschichte der Bundesrepublik* (Göttingen, 2003); and the essays in Axel Schildt and Arnold Sywottek (eds.), *Modernisierung im Wiederaufbau: Die westdeutsche Gesellschaft der 50er Jahre* (Bonn, 1993).

<sup>59</sup> Christina von Hodenberg, *Konsens und Krise: eine Geschichte der westdeutschen Medienöffentlichkeit 1945–1973* (Göttingen, 2006). See also Matthias Weiß, 'Journalisten: Worte als Taten', in Norbert Frei (ed.), *Karrieren im Zwielficht. Hitlers Eliten nach 1945* (Frankfurt, 2001); and Horst Pöttker, 'Zwischen Politik und publizistischer Professionalität', in Jürgen Wilke (ed.), *Massenmedien und Zeitgeschichte* (Konstanz, 1999).

<sup>60</sup> The historian Christopher Kopper devotes a chapter to Karl Blessing's inter-war career in Christopher Kopper, *Bankiers unterm Hakenkreuz* (Munich, 2008), pp. 183–205. For Blessing's post-war stint at the Bundesbank, see Dieter Lindenlaub, 'Karl Blessing', in Hans Pohl (ed.), *Deutsche Bankiers des 20. Jahrhunderts* (Stuttgart, 2008).

president launched a campaign in the public sphere attacking the policies of the Bundesbank and the character of its president, Blessing. In particular, Schacht accused Blessing of partaking in the second inflation that destroyed the reichsmark.<sup>61</sup> Second, the former Reichsbank president also argued that the Bundesbank was embarking on a ‘third inflation’, helping to give popularity to a term that had been used only sporadically in the past.<sup>62</sup> Such accusations proved enormously embarrassing for Blessing, and highlighted how the past was never that far behind. The emergence of the ‘third inflation’ as a point of public discussion – a debate that the Bundesbank sought to discredit, given that the term suggested the central bank was presiding over another inflation – also illustrated how historical narratives of inflations could be used *against* the West German central bank.

The third instance of when the shadow of the inter-war era loomed over the Bundesbank can be found in the appearance of news stories in the mainstream press detailing Blessing’s former membership of Heinrich Himmler’s ‘circle of friends’, or *Freundeskreis*. The *Freundeskreis* was an elite group of *Schutzstaffel* (SS) officials and industrialists that served as a platform for networking, as well as a channel of additional funding for the SS. These news reports originally emerged from East Germany, spearheaded by a propaganda campaign on the part of the East German ministry for state security, more commonly known as the Stasi. The Stasi was determined the blacken the reputation of the ‘president of the deutschmark’, as Blessing was popularly known in the West German media.<sup>63</sup>

Both Blessing and the Bundesbank, then, became a political football in Cold War Europe, a continent riven by an ideological divide. But this East German propaganda campaign soon found an echo in West Germany both with the publication of *Deutschland Report*, a left-wing book that sought to highlight an alleged continuity between the Third Reich and Federal Republic, as well as coverage in mainstream magazines such as *Der Spiegel*. The Bundesbank president’s murky past even became the subject of a scene in a cabaret show that toured around the country, and which was broadcast on national television in 1965.

<sup>61</sup> Lindenlaub has been the first to note Schacht’s accusation, albeit he does so with a single sentence. See Lindenlaub, ‘Karl Blessing’, p. 13.

<sup>62</sup> Similarly, Lindenlaub is also the first to mention the emergence of the ‘third inflation’ as a topic of discussion in the 1960s. See Lindenlaub, ‘Deutsches Stabilitätsbewußtsein’, p. 77.

<sup>63</sup> See, for instance, the front-page cover of *Der Spiegel* (Figure 4.1, Chapter 4), in which Blessing is depicted as ‘president of the deutschmark’.

Such reports, however, clashed with Blessing's image as a man of sound moral principles, a man who safeguarded the deutschmark. This study, then, examines how the Bundesbank's press department entered crisis mode, creating an alternate version of Blessing's past in the form of a document called the 'short comprehensive summary'. This document portrayed his inter-war actions in the best light possible. The Bundesbank press department sent it to the journalists and editors of the publications that published the negative stories about Blessing. In doing so, the Bundesbank compiled a small army of supporting documents to be included alongside the 'short comprehensive summary', many of which stemmed from the Nuremberg trials. These included the court testimonies of Vocke, Schacht and Blessing at Nuremberg – and, of course, the Reichsbank memorandum of January 1939. The *Freundeskreis* episode revealed how the Bundesbank's monetary mythology could be challenged – and indeed was challenged – by using the very same Nuremberg documents upon which the central bank's version of the past was based.

Himmeler, cabaret shows, the Stasi – and the Bundesbank. Such linkages are not common fare when it comes to the study of central bank independence, a concept that has spread like wildfire since the late 1980s and early 1990s.<sup>64</sup> Several influential economic studies have demonstrated a negative correlation between the degree of central bank independence, on the one hand, and the inflation rate of a given country, on the other.<sup>65</sup> In other words, the higher the degree to which the central bank is independent of government influence, the lower the country's rate of inflation. Now, as any good economist will tell you, correlation is not the same as causation. But one possible argument to take from this is that the independent central banker, not beholden to democratic pressure, will be able to embark on politically unpopular, but economically necessary policies at a time when politicians, with their eyes on the next election, cannot.

But economic studies surrounding the autonomy of central banks are often statistical by nature, with little historical analysis provided. Of

<sup>64</sup> See Carlo Tognato, *Central bank independence: cultural codes and symbolic performance* (New York, 2012), pp. 5, 21; and Singleton, *Central banking in the twentieth century*, p. 204.

<sup>65</sup> See the influential article by Alberto Alesina and Lawrence H. Summers, 'Central bank independence and macroeconomic performance: some comparative evidence', *Journal of Money, Credit and Banking*, Vol. 25, No. 2 (1993). The literature is also documented in Bernd Hayo, 'Inflationseinstellungen, Zentralbankunabhängigkeit und Inflation', in Bernhard Löffler (ed.), *Die kulturelle Seite der Währung. Europäische Währungskulturen, Geldwerterfahrungen und Notenbanksysteme im 20. Jahrhundert* (Munich, 2010).

course, parallels can be made with the economist Kenneth Rogoff's idea of a 'conservative central banker' and the image of a German central banker pained by the lessons of Germany's monetary history, a role that Hans Tietmeyer, the president of the Bundesbank from 1993 to 1999, played rather effectively.<sup>66</sup> And indeed, we have also seen how Draghi was keen to tap into this narrative during his interview with *Bild*. Yet the statistical literature has remained dominant when it comes to examining monetary autonomy. The need to subject central bank independence to historical analysis has never been more important.

Why is this the case, however? Since the global financial crisis of 2007–8, the consensus surrounding the benefits of central bank independence has begun to fracture. During 2016, for instance, right-wing populist forces on both sides of the Atlantic increased their attacks on the institution of central bank independence, criticising, in their words, the actions of unelected technocratic experts.<sup>67</sup> In October 2018, the American president, Donald Trump, attacked the American central bank as 'crazy' and 'loco' for the latter's decision to increase interest rates amid efforts to ward off inflation.<sup>68</sup> In doing so, Trump broke a presidential taboo. Two weeks later, Italy's deputy prime minister Luigi Di Maio accused Draghi of 'poisoning the atmosphere' following the latter's remarks that government officials in Rome should tone down their conflict with the European Commission over Italy's budget plans and stop calling into question the 'existential framework' of the euro.<sup>69</sup> Regardless of where you look, the political climate is

<sup>66</sup> Kenneth Rogoff, 'The optimal degree of commitment to an intermediate monetary target', *Quarterly Journal of Economics*, Vol. 100, No. 4 (1985); Hans Tietmeyer, 'The role of an independent central bank in Europe', in Patrick Downes and Reza Vaez-Zadeh (eds.), *The evolving role of central banks* (Washington DC, 1991), pp. 182–3; and Hans Tietmeyer, 'The Bundesbank: committed to stability', in Stephen F. Frowen and Robert Pringle (eds.), *Inside the Bundesbank* (Basingstoke, 1998), pp. 1–2.

<sup>67</sup> For more on central bank independence in an era of rising populism, see Charles Goodhart and Rosa Lastra, 'Populism and central bank independence', *Open Economies Review*, Vol. 29, No. 1 (2018). In addition, refer also to 'Carney says politicians "deflect blame" by attacking central banks', *Financial Times*, 15 Nov. 2016. See [www.ft.com/content/8de147b6-ab31-11e6-9cb3-bb8207902122](http://www.ft.com/content/8de147b6-ab31-11e6-9cb3-bb8207902122). Last accessed on 20 December 2018. See also 'Ed Balls calls for curbs on BoE independence', *Financial Times*, 17 Nov. 2016. See [www.ft.com/content/2616611e-a665-11e6-8b69-02899e8bd9d1](http://www.ft.com/content/2616611e-a665-11e6-8b69-02899e8bd9d1). Last accessed on 20 December 2018.

<sup>68</sup> 'Trump calls "loco" Federal Reserve "too aggressive"', *Reuters*, 11 Oct. 2018. See [www.reuters.com/article/us-usa-trump-fed/trump-calls-federal-reserve-too-aggressive-fox-interview-idUSKCN1ML1TA](http://www.reuters.com/article/us-usa-trump-fed/trump-calls-federal-reserve-too-aggressive-fox-interview-idUSKCN1ML1TA). Last accessed on 20 December 2018.

<sup>69</sup> 'Italy's Di Maio says ECB's Draghi poisoning atmosphere: news agency', *Reuters*, 26 Oct. 2018. See [www.reuters.com/article/us-italy-budget-dimaio-ecb/italys-di-maio-says-ecbs-draghi-poisoning-atmosphere-news-agency-idUSKCN1N01M1](http://www.reuters.com/article/us-italy-budget-dimaio-ecb/italys-di-maio-says-ecbs-draghi-poisoning-atmosphere-news-agency-idUSKCN1N01M1). Last accessed on 20 December 2018.

getting uglier and uglier. Wolfgang Münchau, the influential *Financial Times* columnist, has argued that recent events could signal ‘the end of the era of central bank independence’.<sup>70</sup> It is too early to tell if events will prove Münchau right. But it is nevertheless telling that the titles of two notable publications on central banking, published in 2014 and 2016 respectively, refer to central banks standing at a ‘crossroads’.<sup>71</sup> Paul Tucker, the former deputy governor of the Bank of England, has written of ‘unelected power’ in the wake of a crisis that saw independent central banks assuming the additional task of banking supervision.<sup>72</sup> Today, just like in 1949, the question of monetary autonomy is firmly back on the agenda.

Where does monetary mythology fit into all this? In short, it played a powerful role in constructing a veneer of historical legitimacy surrounding what academics and commentators have come to call the German *Stabilitätskultur*, or stability culture.<sup>73</sup> Proponents of a *Stabilitätskultur* stress the central importance of price stability, achieved through fiscal consolidation.<sup>74</sup> More generally, a stability culture can be defined as a population’s willingness to tolerate difficult economic and monetary policies that could entail economic losses in the short-run, but lead to larger economic gains in the long-run.<sup>75</sup>

<sup>70</sup> Wolfgang Münchau, ‘The end of the era of central bank independence’, *Financial Times*, 13 Nov. 2016. See [www.ft.com/content/8d52615e-a82a-11e6-8898-79a99e2a4de6](http://www.ft.com/content/8d52615e-a82a-11e6-8898-79a99e2a4de6). Last accessed on 20 December 2018.

<sup>71</sup> See Charles Goodhart, Daniela Gabor, Jakob Vestergaard and Ismail Ertürk (eds.), *Central banking at a crossroads: Europe and beyond* (London, 2014); and Michael D. Bordo, Øyvind Eitrheim, Marc Flandreau and Jan F. Qvigstad (eds.), *Central banks at a crossroads: what can we learn from history?* (Cambridge, 2016).

<sup>72</sup> Paul Tucker, *Unelected power: the quest for legitimacy in central banking and the regulatory state* (Princeton, 2018).

<sup>73</sup> Indeed, the coining of the phrase *Stabilitätskultur* has at times been traced to either Tietmeyer or Helmut Schlesinger, another Bundesbank president. See Bernhard Löffler, ‘Währungsgeschichte als Kulturgeschichte? Konzeptionelle Leitlinien und analytische Probleme kulturhistorischer Ansätze auf wirtschafts- und währungsgeschichtlichem Feld’, in Bernhard Löffler (ed.), *Die kulturelle Seite der Währung. Europäische Währungskulturen, Geldwerterfahrungen und Notenbankssysteme im 20. Jahrhundert* (Munich, 2010), p. 34 (footnote).

<sup>74</sup> David Howarth and Charlotte Rommerskirchen, ‘Inflation aversion in the European Union: exploring the myth of a North–South divide’, *Socio-Economic Review*, Vol. 15, No. 2 (2017), pp. 386–8.

<sup>75</sup> See, for instance, Rudolf Richter, ‘Stabilitätskultur als Problem der Institutionen-Ökonomik’, in Helmut Hesse and Otmar Issing (eds.), *Geld und Moral* (Munich, 1994); Peter Bofinger, Kai Pfleger and Carsten Hefeker, ‘Stabilitätskultur in Europa’, in Hans-Hermann Francke, Eberhart Ketzler and Hans-Helmut Kotz (eds.), *Europäische Währungsunion. Von der Konzeption zur Gestaltung* (Berlin, 1998); Bernhard Löffler, ‘Währungsrecht, Bundesbank und deutsche “Stabilitätskultur” nach 1945. Überlegungen zu mentalitätsgeschichtlichen Dimensionen normativ-institutioneller Regelungen’, in Manfred Seifert and Winfried Helm (eds.), *Recht und Religion im*

Since the eurozone crisis, the term *Stabilitätspolitik* has experienced a revival in use. Indeed, according to the political scientists David Howarth and Charlotte Rommerskirchen, the term has even become a ‘strategic political resource’ used by German elites to defend their country’s economic success and, more recently, explain the failures of their profligate, debt-laden neighbours in southern Europe.<sup>76</sup> In 2010, the German finance minister, Wolfgang Schäuble, attacked American suggestions that Germany should embark on a ‘more expansionary fiscal course’ to help pull neighbouring eurozone economies out of their doldrums. Germans, Schäuble countered, are ‘more preoccupied with the implications of excessive debts and the dangers of high inflation’ than Americans. This ‘aversion to deficits and inflationary fears’, the finance minister continued, ‘have their roots in German history in the past century’.<sup>77</sup> In the same year, Angela Merkel, the German chancellor, declared that the solution to the continent’s economic woes was not debt relief, but rather ‘that the whole of Europe commits herself to a new stability culture’.<sup>78</sup> In other words, Italy, Spain and Portugal needed to learn how to tighten their belts. Forget Rome and the Romans: when in Europe, do as the Germans do.

But the German *Stabilitätspolitik* is based on a very specific version of the country’s history, one that emerged from the debates surrounding the Bundesbank Law. In this sense, it is no accident that in 2016 the Bundesbank declared its thirteen-storey, brutalist headquarters the ‘symbol of the stability culture’.<sup>79</sup> The West German central bank was central to its emergence. As this book demonstrates, the monetary authority played a key role in transforming the complex experiences of the inter-war era in such a manner that made the concept of central bank independence synonymous with economic stability. It successfully

*Alltagsleben. Perspektiven der Kulturforschung. Festschrift für Walter Hartinger zum 65. Geburtstag* (Passau, 2005); and, more recently, the detailed and enlightening discussion found in Lindenlaub, ‘Deutsches Stabilitätsbewußtsein’. For a discussion in English, see Bernd Hayo, ‘Inflation culture, central bank independence and price stability’, *European Journal of Political Economy*, Vol. 14 (1998).

<sup>76</sup> See David Howarth and Charlotte Rommerskirchen, ‘A panacea for all times? The German stability culture as strategic political resource’, *West European Politics*, Vol. 36 (2013).

<sup>77</sup> Wolfgang Schäuble, ‘Maligned Germany is right to cut spending’, *Financial Times*, 24 Jun. 2010. See [www.ft.com/content/216daeba-7f0c-11df-84a3-00144feabdc0](http://www.ft.com/content/216daeba-7f0c-11df-84a3-00144feabdc0). Last accessed on 20 December 2018.

<sup>78</sup> Howarth and Rommerskirchen, ‘Inflation aversion in the European Union: exploring the myth of a North–South divide’, p. 386.

<sup>79</sup> See ‘Symbol der Stabilitätspolitik’, [www.bundesbank.de/de/aufgaben/themen/symbol-der-stabilitaetskultur-664760](http://www.bundesbank.de/de/aufgaben/themen/symbol-der-stabilitaetskultur-664760). Last accessed on 20 December 2018.

argued that an independent central bank was crucial for price stability, which was in turn instrumental for social peace and thus a flourishing democracy. And it did so despite the fact that such an argument is not at all apparent from the record of the inter-war Reichsbank. Therein lay what this book labels the ‘paradox’ of West German democracy: the popular belief, carefully crafted in the post-war era, that an independent central bank was a crucial pillar of a successful democratic state.<sup>80</sup>

The lessons of the two inflations, tied to the need for an independent Bundesbank, lay at the heart of the German *Stabilitätskultur*. In 1949, these lessons were merely one among several historical narratives in the public sphere. But they soon emerged in the ascendant, aided by the central bank’s efforts in the media. Numerous historians have shown how the 1956 ‘Gürzenich affair’ – during which Adenauer attacked the BdL’s independence, comparing its restrictive monetary policy to a ‘guillotine’ falling upon the West German people – solidified popular support for central bank independence and boosted the monetary authority’s reputation.<sup>81</sup>

This book, however, also argues that the ‘Gürzenich affair’ proved to be a crucial moment in terms of how West Germans interpreted their monetary history. The media scandal that followed Adenauer’s remarks, unprecedented in scale, proved to be a publicity coup for the central bank, and it marked the ascendance, and dominance, of the BdL’s version of history, in turn narrowing and ossifying the parameters through which West Germans analysed their past in the public sphere.<sup>82</sup> Indeed, it was shortly after the ‘Gürzenich affair’ when Erhard, the economics minister, reduced the experiences of the inter-war era to a simple (if not outright simplistic) equation: ‘The formula “dependent central bank = inflation” is valid at all times and everywhere. Historical experience proves that to us with crystal clarity.’ Such a statement, and the sheer confidence with which it was expressed, would have been unlikely six years earlier. Back then, the ‘crystal clarity’ of which Erhard spoke was distinctly absent in the political realm.

The BdL’s conception of monetary history found an expression in the provisions outlined in the Bundesbank Law. By allowing for a monetary authority independent of political instruction, this piece of legislation

<sup>80</sup> This is discussed in greater detail in Chapter 5.

<sup>81</sup> Daniel Koerfer, *Kampf ums Kanzleramt: Adenauer und Erhard* (Stuttgart, 1987); Berger, *Konjunkturpolitik im Wirtschaftswunder*; and Christian N. Wolz, *Konflikte zwischen der Notenbank und der Regierung in der Bundesrepublik Deutschland 1956–1961* (Stuttgart, 2009).

<sup>82</sup> This is discussed in detail in Chapter 3.

spoke to one version of the past, but not to another.<sup>83</sup> The lessons stemming from the two inflations were prioritised over those arising from the experience of mass unemployment.

Indeed, the study shows how the Bundesbank Law itself entrenched the power struggle so evident in previous years. By not providing for a formal resolution process through which disputes over monetary policy between Frankfurt and Bonn could be solved, the Bundesbank Law encouraged such disputes to become ‘dramatised’ and spill into the public sphere, as already demonstrated by the ‘Gürzenich affair’ the year prior to its passage through parliament.<sup>84</sup> These future controversies would centre on the central bank’s independence, in turn creating further instances in which the lessons of Germany’s two inflations could suddenly *become* relevant again, and applied in defence of the Bundesbank’s independence.

An institutional struggle, one evident from the Federal Republic’s establishment in 1949, but later embedded into its legislative framework from 1957 onwards, perpetuated a cultural preoccupation with Germany’s inflationary episodes. To emphasise this point, the study examines an episode that occurred in 1973, during which a debate surrounding a *Novellierung*, or amendment, to the Bundesbank Law provoked a media storm evoking the lessons of the two inflations. A generation might have

<sup>83</sup> The Bundesbank’s independence, as outlined in the Bundesbank Law, has since been the subject of numerous studies over the decades, the more notable of which are as follows: Carl-Ludwig Holtfrerich, ‘Relations between monetary authorities and governmental institutions: the case of Germany from the 19th century to the present’, in Gianni Toniolo (ed.), *Central banks’ independence in historical perspective* (Berlin, 1988); John B. Goodman, *The politics of central banking in Western Europe* (London, 1992), pp. 58–102; Rolf H. Kaiser, *Bundesbankautonomie – Möglichkeiten und Grenzen einer unabhängigen Politik* (Frankfurt, 1980); Rolf Caesar, *Der Handlungsspielraum von Notenbanken: Theoretische Analyse und internationaler Vergleich* (Baden-Baden, 1981), pp. 167–214; Ellen Kennedy, *The Bundesbank: Germany’s central bank in the international monetary system* (London, 1991); Rüdiger Robert, *Die Unabhängigkeit der Bundesbank: Analyse und Materialien* (Kronberg im Taunus, 1978); Helge Berger, ‘The Bundesbank’s path to independence: evidence from the 1950s’, *Public Choice*, Vol. 93, Nos. 3–4 (1997); Helge Berger and Jakob de Haan, ‘A state within the state? An event study on the Bundesbank (1948–1973)’, *Scottish Journal of Political Economy*, Vol. 46, No. 1 (1999); and the essays in Dieter Duwendag (ed.), *Macht und Ohnmacht der Bundesbank* (Frankfurt, 1973).

<sup>84</sup> The ‘dramatisation’ potential of the Bundesbank Law has already been highlighted by a number of central bankers and historians. See Bertold Wahlig, ‘Relations between the Bundesbank and the Federal Government’, in Stephen F. Frowen and Robert Pringle (eds.), *Inside the Bundesbank* (Basingstoke, 1998), p. 52; Lindenlaub, ‘Deutsches Stabilitätsbewußtsein’, pp. 82–3; Bibow, ‘Zur (Re-)Etablierung zentralbankpolitischer Institutionen und Traditionen in Westdeutschland’, p. 569; and the comments of Hugo Scharnberg, a politician with the Christian Democratic Union, in *Deutsche Bundesbank* (ed.), *30 Jahre Deutsche Bundesbank. Die Entstehung des Bundesbankgesetzes vom 26. Juli 1957* (Frankfurt am Main, 1988), p. 148.

separated the eras of Adenauer and Helmut Schmidt, the chancellor of West Germany from the mid-1970s to early 1980s, but the references and examples they used remained eerily the same.

A cultural preoccupation with inflation. But haven't we been here before? This introduction began by documenting how central bankers, journalists and historians have commented upon a 'national trauma' that has arisen from the experience of the Weimar hyperinflation. But this event occurred almost a century ago. Few if any Germans alive remember it. By 1972, for instance, the economic historian Knut Borchardt noted that less than 13 per cent of the West German population was above the age of 65 – that is, the age that would have allowed them to consciously remember the hyperinflation.<sup>85</sup>

Of course, this is not to claim that a German 'trauma' concerning inflation never existed. Historians have documented in detail an aversion to inflationary policies in the latter years of the Weimar Republic, and the political implications that such popular attitudes had for the economic policies of the chancellor at the time, Heinrich Brüning.<sup>86</sup> But the real question is why such historical narratives have persisted so steadily in the public sphere. The common assertion that these experiences were passed down through German families is often based on flimsy, anecdotal evidence.<sup>87</sup> There is research that suggests memories of high inflation fade as time progresses.<sup>88</sup>

Moreover, Germany was not the only European country to have experienced a hyperinflation during the twentieth century. Austria, Poland, Russia

<sup>85</sup> Knut Borchardt, 'Die Erfahrung mit Inflationen in Deutschland', in Johannes Schlemmer (ed.), *Enteignung durch Inflation? Fragen der Geldwertstabilität* (Munich 1972), p. 9.

<sup>86</sup> See, for instance, Jürgen von Krüedener, 'Die Entstehung des Inflationstraumas. Zur Sozialpsychologie der deutschen Hyperinflation 1922/23', in Gerald D. Feldman (ed.), *Konsequenzen der Inflation* (Berlin, 1989); and Knut Borchardt, 'Das Gewicht der Inflationsangst in den wirtschaftspolitischen Entscheidungsprozessen während der Weltwirtschaftskrise', in Gerald D. Feldman (ed.), *Die Nachwirkungen der Inflation auf die deutsche Geschichte 1924–1933* (Munich, 1985). The works of Harold James, Theo Balderston and Patricia Clavin also support the argument of an inflation aversion evident during the latter years of the Weimar Republic. See James, *The German slump*; Theo Balderston, *The origins and course of the German economic crisis: November 1923 to May 1932* (Berlin, 1993); and Patricia Clavin, *The Great Depression in Europe, 1929–1939* (London, 2000).

<sup>87</sup> An example of this argument can be found in Elisabeth Noelle-Neumann, 'Geldwert und öffentliche Meinung: Anmerkungen zur "Psychologie der Inflation"', in Clemens-August Andreae, Karl-Heinrich Hansmeyer, Gerhard Scherhorn (eds.), *Geldtheorie und Geldpolitik: Günter Schmölders zum 65. Geburtstag* (Berlin, 1968), pp. 37–40.

<sup>88</sup> Michael Ehrmann and Panagiota Tzamourani, 'Memories of high inflation', *European Journal of Political Economy*, Vol. 28 (2012), pp. 174–5, 190.

and Hungary have also experienced hyperinflations.<sup>89</sup> But these countries – or, expressed more specifically, their political cultures – fail to place price stability on the same vaunted pedestal of economic policy priorities.

Perhaps the rise of Hitler explains the Germany's subsequent fixation on inflation? Well, no. The National Socialists remained a marginal party until well into the late 1920s. It was arguably mass unemployment, not inflation, which radicalised the electorate in the twilight years of the Weimar Republic, propelling the National Socialists to power. But why has the German hyperinflation remained so relevant, when other European inflations have not? To date, no one has adequately explained the apparent inter-generational transmission of the experiences of the German hyperinflation.

Is it really the case that 'the ninety-year-old national sense of trauma has not yet been fully overcome', as the writer Frederick Taylor suggests in his popular account of the Weimar hyperinflation?<sup>90</sup> This book suggests otherwise. And in doing so, it eschews terms such as 'collective memory', a concept pioneered by the French sociologist Maurice Halbwachs.<sup>91</sup> Using collective memory as an operational construct invites more problems than it solves, partly because it is so hard to define.

Instead, the study centres on the question of power. It shows how a clash of interests, one given continual life in the Bundesbank Law, compelled new generations of West Germans to understand contemporary political disputes in historical terms. The origins of this cultural 'aversion' to inflation might well have been psychological, and derived from personal experience. But the reasons as to why it has persisted so well in the public sphere are institutional. The preoccupation of Germany's political culture with inflation today has little to do with the actual events of 1922–3; rather, we can find its roots in an institutional divide that the Allied military authorities had set in place in 1948.

## Sources

In making its argument, the study uses a variety of sources from a total of eight archives based in Germany. The sources are of a qualitative nature

<sup>89</sup> As noted in Patricia Clavin, 'Review: the impact of inflation and depression on democracy. New writing on the inter-war economy', *The Historical Journal*, Vol. 38, No. 3 (1995), p. 749. Refer also to Mark Blyth, *Austerity: the history of a dangerous idea* (Oxford, 2013), p. 48.

<sup>90</sup> Taylor, *The downfall of money*, p. 359.

<sup>91</sup> See Maurice Halbwachs, *On collective memory*, trans. and ed. Lewis A. Coser (Chicago, 1992); and Maurice Halbwachs, *The collective memory*, trans. Francis J. Ditter and Vida Y. Ditter (New York, 1980).

for the most part. This reflects the nature of the topic at hand: the book approaches economic history from a cultural perspective and examines the construction of historical narratives that centre on the inter-war era. But this reliance on qualitative sources is also indicative of the fact that quantitative sources are hard to come by. There were no public opinion surveys commissioned in West Germany that examined attitudes to central bank independence until 1986.<sup>92</sup> Where relevant data are available, however, as in the case of media consumption during the 1950s, as well as general attitudes to inflation, the study makes ready use of them.

The majority of sources used, then, are personal correspondence, internal reports, court transcripts, minutes of meetings, speeches, newspaper articles and books. It was important to examine the emergence and development of monetary mythology from several angles and, indeed, eras. This meant travelling to the federal archives in Berlin, to examine Reichsbank files of the pre-1945 period, as well as journeying to Koblenz, where the files for the post-war economics and finance ministries can be found, in addition to those of the federal chancellery. At the centre of my research efforts, however, were the historical and press archives of the Bundesbank, both of which reside in the central bank's compound in Frankfurt.

The archives consulted during the research of the book are as follows: the historical and press archives of the Bundesbank; the federal archives in Koblenz; the other branch of the federal archives in Berlin; the Archiv der sozialen Demokratie in Bonn, in which Social Democratic Party (SPD) sources are held; the Institut für Zeitgeschichte in Munich, which holds a number of useful sources from the United States' Office of Military Government, crucial for understanding the early post-war years; das Historische Archiv des Bundesverbandes der Deutschen Industrie, which holds files pertaining to the influential industrialist lobbying organisation, and which is situated in Berlin; and the German Bundestag parliamentary archive, also located in the capital city. The Zeitungsabteilung, or newspaper branch, of the Staatsbibliothek zu Berlin was also consulted.

## Chapter Outline

### *Chapter 1: In Search of the Reichsbank*

Chapter 1 is a background chapter. As such, it relies on secondary sources, though a small number of primary sources are used to reinforce certain points. The chapter examines the evolution of the Reichsbank,

<sup>92</sup> And even then, the survey was not commissioned by the government, but rather the Bundesbank. See Lindenlaub, 'Deutsches Stabilitätsbewußtsein', p. 77.

from its establishment in 1876 until the departure of key figures of the directorate in 1939. It devotes particular attention to the record of central bank independence during the inter-war era, and the careers of those Reichsbankers who went on to lead the post-war central bank. The chapter argues that the origins of monetary mythology can be traced back to the Nuremberg trials, where a form of it was first applied in defence of Schacht amid efforts to sanitise both his record and the conduct of the Reichsbank under his tenure.

*Chapter 2: The Bank deutscher Länder and the Foundation of West Germany, 1948–1951*

Chapter 2 examines the world in which the BdL was established. It centres on the period 1948–51, the latter being the year when monetary sovereignty was transferred by the Allies to the West Germans. The chapter documents the opinions of West German elites in the lead-up to the creation of the BdL, noting that they were split on the question of central bank independence. It argues that a political struggle surrounding the future of the central bank incentivised a variety of West German elites to confront their inter-war monetary history. The chapter then shows how the BdL adopted an active press policy in the effort to influence the Bundesbank Law. Such efforts failed to prove effective during this period, however. Other events, such as the Allied decision to transfer monetary sovereignty to West Germany in 1951, proved more decisive. But it was in this very period that the central bank established a workable framework of historical narratives that could be applied for political ends.

*Chapter 3: Adenauer's Challenge: The 'Gürzenich Affair' and the Bank deutscher Länder, 1956–1957*

Chapter 3 examines the final years of the Bundesbank Law debate. It documents the extent to which the West German central bank's reputation improved since 1951, and devotes particular attention to a 1956 public attack launched by the chancellor, Adenauer, on the central bank. The controversy that erupted resulted in a publicity coup for the BdL and its independence. The chapter argues that the crucial consequence of the 'Gürzenich affair' was the narrowing of the parameters of monetary debate through which West Germans interpreted the inter-war era.

Moreover, it argues that the provisions outlined in the Bundesbank Law reconfirmed an institutional conflict between Bonn and Frankfurt, one that was originally left behind by the Allied authorities. In providing

no formal process through which conflicts between the federal government and the central bank could be solved quietly, the Bundesbank Law increased the likelihood that such disagreements would become ‘dramatised’ and spill into the public sphere. These disagreements, then, gave rise to public controversies surrounding central bank independence, and in turn, provided further instances in which inflation narratives could be geared in support of the Bundesbank. It explains West Germany’s cultural preoccupation with inflation in institutional terms.

*Chapter 4: The Shadow of National Socialism: Karl Blessing and the Bundesbank in 1965*

Chapter 4 argues that the shadows of the Reichsbank and National Socialism troubled the Bundesbank well into the 1960s. This was in large part because of the central bank’s president, Blessing. After years of using the president’s inter-war record as a source of credibility, the central bank began to see these historical narratives being challenged. Chapter 4, then, examines three case studies that centred on Blessing’s questionable past. The chapter documents the re-emergence in the public sphere of Schacht, Blessing’s mentor during the Reichsbank years. The former Reichsbank president used his notoriety to popularise the term ‘third inflation’, while accusing Blessing of having a role to play in the second one.

In 1965, too, news reports emerged in West Germany of the central banker’s past membership in Himmler’s *Freundeskreis*. These revelations forced the central bank to intervene covertly in the public sphere, with the aim of killing these stories as quickly as possible. Proxies of the Bundesbank sent historical documents, compiled by Blessing’s personal advisor and press chief, to the journalists and editors of the publications that published the damning allegations. These accusations, and the Bundesbank’s difficulty in addressing them, highlight how the legacy of the inter-war era continued to trouble the West German central bank even two decades after the end of the war.

*Chapter 5: The Bundesbank, Social Democracy and the Era of the ‘Great Inflation’, 1970–1978*

Chapter 5 examines the independence of the central bank in a decade riven by economic crises. In 1973, the Bundesbank faced a challenge to its independence – a challenge that emerged from within the SPD, which shared power in a coalition government. The argument of Chapter 5 underlines Chapter 3’s concluding argument. It highlights how the

Bundesbank Law provided the impetus for conflicts between Bonn and Frankfurt, in turn prompting the use of historical narratives concerning the two inflations applied in support of central bank independence. Furthermore, the chapter goes on to note the extent to which the 1970s were littered with monetary anniversaries. It argues that these occasions, coupled with the economic crises at hand, served as moments of reflection that allowed the Bundesbank to bolster its reputation and reinforce the parameters through which West Germans interpreted the monetary past. The chapter concludes by examining a ceremony that marked the thirtieth anniversary of the deutschmark in 1978. It was a ceremony described by *Time* magazine as a 'monetary memorial'. It is a fitting conclusion to three decades of monetary mythology.