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High Inflation Causes Societies to Disintegrate

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A comment by a top Bundesbank official that Germany may be prepared to tolerate slightly higher inflation has caused alarm in the country, where many still fear 1920s-style hyperinflation. While some German commentators stoke the flames of the debate, others say there is no need to panic.

"Inflation Alarm!" reads the front-page headline in *Bild*, Germany's biggest selling newspaper. "How quickly will our money be eaten up?" the paper continues on page 2. "Millions of Germany are worried: Inflation is returning!" Just in case the message wasn't clear enough, the article is illustrated with a picture of a 1 trillion mark note from 1923, the high point of German hyperinflation.

The fact that *Bild*, arguably Germany's most influential newspaper, chose to run with the story in its Friday edition shows just how deep-rooted Germans' fears of inflation are. Nine decades later, the hyperinflation of the early 1920s still haunts the country.

The panic-mongering was prompted by a statement by a senior official from the Bundesbank, Germany's central bank, to the finance committee of the German parliament earlier this week. Jens Ulbrich, head of the Bundesbank's economics department, said that Germany is likely to have inflation rates "somewhat above the average within the European monetary union" in the future and that the country might have to tolerate higher inflation for the sake of rebalancing national economies within the euro zone.

Ulbrich did not give concrete figures in his statement, saying only that it was important that inflation in the euro zone as a whole continues to remain stable, even if it rises in some countries and falls in others. Observers believe the Bundesbank may be reckoning with an inflation rate of around 2.5 or 2.6 percent.

'Printing Money Can't Be an Answer'

On Friday, Germany's Federal Statistics Office published new figures showing that inflation in Germany is now at 2.1 percent, still somewhat lower than the euro-zone average of 2.6 percent. The European Central Bank's goal is to keep inflation in the euro zone at slightly below 2 percent in the medium term.

On Thursday, Finance Minister Wolfgang Schäuble told reporters that inflation could go as high as 3 percent. "As long as we are ... in a corridor between 2 and 3 percent, we may not be below 2 percent but we are in an area that is still acceptable," Schäuble said.

Although many economists welcomed what they saw as the Bundesbank softening its hardline approach to price stability in recognition of Europe's economic reality, the news made many Germans uneasy and on Friday, Berlin tried to allay fears of runaway inflation. Foreign Minister Guido Westerwelle told the Bundestag that price stability was a "core concern" of the government. Even if Europe badly needed growth, "printing money can't be an answer," he said.

Bundesbank President Jens Weidmann also tried to explain the bank's position in an interview with *Bild* published Friday. "For many years, Germany had inflation that was below the euro-zone average," he said. "In view of our good economic development and low unemployment, we could now temporarily be above the average."

German commentators took a look at the issue in Friday's newspapers. While *Bild*, predictably, ran an anti-inflation editorial, other newspapers insisted there was no cause for panic.

The mass-circulation **Bild** writes:

"For 10 years, the euro was very stable and had lower inflation than the deutsche mark. But now the worst part of the financial and euro crisis is coming: creeping currency devaluation and inflation which could possibly continue for years. That's how counties want to wash away their debts. But it mainly affects (blue-collar) workers, employees and retirees. They are precisely the people who have borne the burden of solving the crisis and who have kept a cool head. That's unfair."

"(Inflation) gnaws at our trust in money, in our most important institutions, in politicians and in the central banks, which in German are dubbed 'guardians of the currency' for a good reason.

Because they experienced it so bitterly, Germans know that in the end high inflation causes societies to disintegrate. It robs the individual of trust in the future, without which no country can thrive."

The business daily **Handelsblatt** writes:

"Hardly had the Bundesbank official said that he expected Germany to have a higher inflation rate than the euro-zone average than the Germans' fear of inflation prompted a shocked reaction. It's as if the country's hyperinflation happened yesterday and not 90 years ago. But what the Bundesbank official dared to say when he mentioned the I-word to the Bundestag's finance committee is by no means a sign that the guardians of German monetary stability have suddenly decided to start printing money, but a simple description of the economic reality in Europe: In booming Germany, prices will probably rise more this year than anywhere else in the euro zone."

"There is, in any case, no cause for panic. Contrary to what some British or US economists are implying, no one at the ECB is saying that Germany should tolerate inflation rates of 4 or 5 percent. The anchor of 2 percent as the inflation target will not move, given Germany's large contribution to the economic output of the euro zone. In plain language, saying that Germany will have a higher inflation rate than the euro-zone average probably means an inflation rate of between 2.5 and 3 percent for a while. Back when the country had the deutsche mark, inflation was often much higher."

The center-right **Frankfurter Allgemeine Zeitung** writes:

"During a crisis, inflation becomes tempting. Over-indebted countries hope for a reprieve. There is the prospect of a lower debt burden, because as prices rise, so do tax revenues and the real value of debt decreases. And so the desire (for inflation) starts to seep slowly into the rhetoric of central bankers."

"But we should not misunderstand the Bundesbank's conclusion that Germany will see higher inflation than average. It does not imply a more relaxed attitude. That would also be the wrong approach to adjusting imbalances (within the euro zone). The right approach to making a country more competitive is by increasing productivity, not just by lowering costs."