High-Price Bubble Bursts; German Economy Benefits

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It was the best Christmas in at least six years for Germany. Shops were full, windows were well-lighted and attractively displayed, and throngs of shoppers crowded the streets. For the first time since the end of the war, there was a breath of Gemütlichkeit (exuberance) in the air.

Hans Schmidt, German man-on-the-street, took what little he had saved, added his last pay envelope and his Christmas bonus to it, and in spite of exorbitant prices, went out to shoot the works. The exceptionally high pre-Christmas prices acted only as a deterrent; they did not stop him from spending, and spending down to his last pfennig (penny).

Things had been building up to this Christmas buying spree for months. Prices had been maintained at high levels in anticipation of it, and production had steadily mounted in the hope of building up stocks which could be moved at high prices. Every manufacturer had counted on Hans to spend everything he had in his Christmas blow-out, and Hans had lived right up to expectations.

He had a fine Christmas, the best in years; but on the Monday after, he was broke and a little bit worried. Not only had he spent all his money, he had also bought what he wanted at prices determined not by the cost of manufacture plus a reasonable profit, but by his own imperious demand.

That Hans was something of a Dummkopf (blockhead) became crystal clear the week after Christmas, when prices in nearly every line of goods fell off somewhat, and gave indications of falling off more and more throughout the coming weeks. As a result of his lack of thrift, Hans had put himself in a spot where he was broke and completely dependent on his job. The only way he could get along during the coming months was to pull in his belt, live within his means, work hard and work efficiently to protect his source of income.

Hans skill and energy, combined with those of a million like him, were Hesse’s chief source of productivity. At the same time, the money in Hans’ collective pocket made him the chief market for Hesse’s produce. What Hans did, then, and what he thought and felt, intimately affected the whole economic life of the state. And now, after Christmas, Hans felt like working hard; he did not feel like buying anything unnecessary. He had no money.

At the end of December, it looked very much as if production—subject to the limitations of available power and coal—would be on the increase, and industrial efficiency (or productivity) would be far above preceding months. At the same time, the fact that Hans has no desire to buy, and especially to buy indiscriminately, would bring about a significant slump in demand.

Prices, already on their way down, could be expected to skid further—to skid so far, in fact, that (so long as raw materials kept flowing in) shortly the major part of Hesse’s produce would be sold at the cost of manufacture plus a reasonable profit, instead of at such high prices as the market would bear.

The approach to a “cost-plus economy” was hailed by Hessian economists as the healthiest economic development in December. Hans’ hard-earned money—plus his Christmas bonus—was now in the hands of wholesalers and manufacturers; presumably it would be used to place new orders and to acquire more raw materials.

But these new orders and raw materials would be obtained at prices considerably lower than before Christmas. Unless something went radically wrong, the savings on new orders would be passed on the Hans — and would have to be passed on in order to pry Hans’ money away from him.

At the end of December, partly because Hans Schmidt was such a Christmas spendthrift, the Hessian economy looked sounder than ever before.

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