Misremembering Weimar*

Hyperinflation, the Great Depression, and German Collective Economic Memory

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Abstract

The well-known German aversion to inflation has attracted a lot of interest and is often attributed to a specific historical memory: Weimar. Yet we do not know much about why hyperinflation seems to overshadow the Great Depression in German collective economic memory. To answer this question, we study what exactly it is that Germans believe to remember about their past. Using original survey data, we show that many Germans do not distinguish between hyperinflation and the Great Depression, but see them as two dimensions of the same crisis. They conflate Weimar economic history into one big crisis, encompassing both rapidly rising prices and mass unemployment. Additionally, more educated and politically interested Germans are more likely to commit this fallacy. Our finding thus nuances ideational explanations for Germany's economic policy stance in the European Union.

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1 Introduction

Government policies aimed at dealing with the economic downturn during the Corona crisis have again led to concerns about rising inflation around the globe. Pundits and experts alike worry about price increases due to an extremely expansive monetary policy, accompanied by the direct or indirect financing of escalating public debt (Claeys 2020; Financial Times 2020; The Economist 2020). Especially in Germany, where 51% in 2020 report being worried about rising costs of living (M. Schmidt 2020), such concerns find fertile breeding grounds. For instance, prominent German economist Hans-Werner Sinn cautioned in mid-May 2020: “I am fatally reminded of the time after World War I, when there was a broken economy, the Spanish flu came and Germany tried to save itself with freshly printed money” (cited in Göpfert 2020). For many, such historical references to the possibly detrimental effects of inflation ring true, as German political actors often refer to the powerful image of the ‘downfall of money’ (Taylor 2013a) during hyperinflation in 1923, which according to its foremost historian Gerald Feldman produced a “trauma that has burned itself into collective memory” (Feldman 1993, 5). Remembrance of Weimar history has supposedly shaped the worldview of both elites and the public; a mass-elite consensus that is succinctly described as “German stability culture” (Bulmer 2014; Howarth and Rommerskirchen 2013; V. Schmidt 2014). The deep aversion to inflation thus traces back to the experience of hyperinflation (Hayo and Neumeier 2016; Kennedy 1998; Shiller 1997), or so the story goes.

This historical memory, in turn, is said to have important political consequences: The broad popular consensus on budgetary restraint (Brunnermeier, James, and Landau 2016) and the German emphasis on fiscal discipline and monetary stability (Matthijs 2016) are often linked to this historical memory. By invoking it as a point of reference, the economic history of the Weimar Republic has also been used to justify Germany’s stance on European issues; from the Maastricht Treaty and the unique independence of the ECB (Mody 2018; Sandholtz 1993) to the management of the Euro crisis (Frieden and Walter 2017; Schimmelfennig 2014; Schneider and Slantchev 2018) and the country’s reluctance towards ambitious reforms of the

European Union (Sandbu 2015). Yet, merely acknowledging that history matters for contemporary politics leaves open one important question: What do people actually remember from past economic crises and how does (selective) remembrance shape their belief system?

If the memory of the Weimar hyperinflation contributes to the dominance of a "stability culture" (Howarth and Rommerskirchen 2013), this immediately raises the question why exactly this specific crisis has acquired such an outsized role in Germans' understanding of their economic history. After all, the Weimar Republic experienced two separate economic crises: a period of *hyperinflation* in 1923, in which price levels rose astronomically but unemployment remained relatively low, and a separate period of severe *deflation coupled with mass unemployment* during the Great Depression. Both crises had devastating consequences, yet recollection of the Weimar Republic seems to be dominated by the former (V. Schmidt 2014, 193). As Niall Ferguson and Nouriel Roubini point out, "today's Germans appear to attach more importance to 1923 (the year of hyperinflation) than to 1933 (the year democracy died)" (Ferguson and Roubini 2012). Similarly, Frederick Taylor wonders why "German politicians, writers and intellectuals – and with them the broad German public – not have the same fear about austerity and its discontents?" (Taylor 2013b) and Paul Krugman argues that it would be "crucial that Europe's leaders remember the right history" (Krugman 2015).

We provide an explanation for the outsized role of hyperinflation in the German political discourse and argue that its fundamental driver is a widespread misunderstanding of economic history. Many citizens do not understand that Germany's multi-faceted interwar period was shaped by two separate crises, but rather conceptualize these two crises as being one and the same. Hence, for these Germans, a reference to hyperinflation triggers not only the image of cash in wheelbarrows but also a notion of mass unemployment – as does a reference to the Great Depression. Consequently, these two distinct crisis phenomena are seen as elements of one big encompassing Weimar economic crisis. This crisis frame is usually referred to as hyperinflation, even though it was the Great Depression that was the proximate economic cause for the collapse of the Weimar Republic and the rise of the Nazi party.

We collected original survey data on the German memory of Weimar economic history in order to empirically test this argument. We asked a representative sample of Germans about their memory of interwar economic history. Moreover, we replicated the same survey in the Netherlands, a country that did not experience hyperinflation during the interwar period, but is also well-known for its conservative economic outlook. Leveraging responses from this survey as a counterfactual for the absence of an encompassing hyperinflation crisis frame allows us to investigate whether Germans indeed subsume the different economic crises of their interwar history under one heading.

Our results suggest that many Germans remember the two economic crises of the interwar period as being one and the same and that more educated and politically more interested Germans are more likely to commit this fallacy. When we ask Germans to characterize the Great Depression in their own words, a majority describes it as an inflation and unemployment crisis at the same time. When asked to estimate interwar inflation rates, a majority of Germans assumes that the Weimar economy was continuously plagued by inflation, regardless of whether we randomly expose them to information about the 1923 hyperinflation crisis or the 1932 Great Depression. Importantly, we find that Dutch respondents associate the Great Depression with substantially lower inflation rates than Germans.

Finally, we also test whether making people think about Weimar does affect their economic policy preferences. Here, we do not find a uniform effect. Contrary to what one might expect, a Weimar prime does not make Germans more inflation averse across the board. Instead, it leads to a polarization along ideological lines. Only respondents who describe themselves as being on the political right become more inflation averse when asked to think about Weimar economic history. These findings suggest that the long-standing conflation of Weimar economic history has the potential to play into the hands of specific political interests.

Understanding this misunderstanding at the core of German collective memory of Weimar economic history makes the German fear of inflation more comprehensible. After all, in the German imagination inflation does not just mean a downfall of money; but is accompanied by a whole array of other economic disasters. In line with research on collective memory (Assmann 1995; Halbwachs 1992; Olick and Robbins 1998), we demonstrate that invoking a historical narrative does not prime the memory of real events, but can prime an event that only exists in historical imagination. It is, thus, not history itself that has the ability to shape current political outcomes, but the way historical events are narrated in public discourse.

In the next section, we start by discussing what role history plays in contemporary collective memory. We then go on and summarize Weimar's economic history and explain why this history could underwrite two very different narratives. In the main body of the paper, we contrast these historical facts with Germans' fundamental misunderstanding of their own past. In Section 3, we introduce our survey design and discuss why we use the Netherlands as a counterfactual for Germany. Sections 4 to 7 present our empirical findings on the conflation of the crises, the role of education and political interest, and the polarizing effects on political preferences. Section 8 discusses the implications of these findings for understanding German preferences in the Eurozone crisis.

2 Theory: History, Worldviews, and the Roots of Stability Culture

To explain why concerns about inflation are so widespread in Germany, scholars have pointed to a number of factors. First, authors working in the tradition of the Varieties of Capitalism approach often emphasize Germany's export-oriented growth model (Baccaro and Pontusson 2016; Iversen and Soskice 2018; Steinberg and Vermeiren 2015). From this perspective, the need to preserve competitiveness in international markets provides a broad coalition of workers, employers and politicians with vested interests to avoid rising domestic prices , making low inflation a fundamental goal of German economic policymaking (Hall 2012).

Second, scholars have pointed to institutional factors and especially the uniquely independent role of the Bundesbank in Germany's economic institutional set-up (Goodman 1991;

Lohmann 1998). According to this reading, the fact that Germany's central bank was shielded from political influence as early as the 1950s enshrined a strong focus on price stability into German monetary policymaking and, at the same time, contributed to the emergence of stability culture amongst the broader public (Hayo 1998; Mee 2019).

Finally, a prominent strand of research focuses on the role of ideational factors in bringing about Germans' concerns with inflation. Research within this school emphasizes the prevalence of ordoliberal economic ideas amongst economists and economic policymakers (Dullien and Guerot 2012; Matthijs 2016). This specific tradition of economic thinking, according to these authors, leads many decision makers to be deeply convinced of the axiomatic merits of prudent fiscal and monetary policy and, therefore, to a strong focus on low inflation rates (Young 2014).

Ideational research has also stressed the role of historical events – and public recollection thereof – as important reference points for the broader public debate about economic policy in Germany (Hayo and Neumeier 2016; Shiller 1997; Taylor 2013a). In this paper, we extend this line of thinking by investigating the empirical micro-foundations of this approach and by studying what exactly it is that Germans remember about Weimar economic history.

2.1 Weimar Economic History – A Tale of Two Crises

Before we investigate how Germans remember their economic history, we briefly recall the economic trajectory of the Weimar Republic. The most important fact about this trajectory is that it was dominated by two distinct – and in their character very different – economic crises, separated by five years of relative stability (Figure 1). The first of these crises was the hyperinflation crisis. After inflation rates had already been very high during the immediate postwar years, this culminated in a period of hyperinflation in 1923. The main economic effect of hyperinflation was to benefit debtors at the expense of creditors. The financial savings of many

Germans were wiped out, while many debts, including government debt, were effectively written off (Kolb and Schumann 2013, 206). The real value of the Reich's war debt had declined to just 15.4 cents in November 1923 (Taylor 2013a, 329). By contrast, the effects on the labor market were less drastic and unemployment rates remained comparatively low throughout the inflationary episode (Holtfrerich 1986).

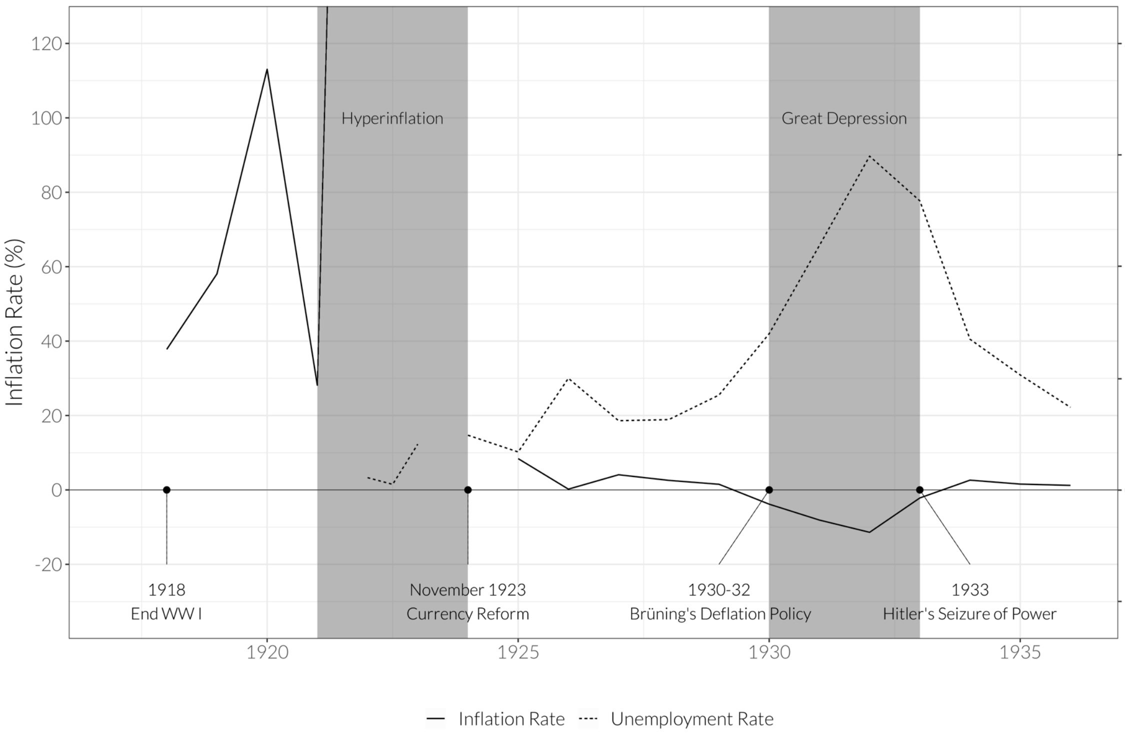

Figure 1: The Two Economic Crises of the Weimar Republic[1]

After money was stabilized in late 1923, the Weimar Republic experienced five years of relative calm and economic prosperity. However, from 1929 onwards, Germany was hit by the Great Depression. Crucially, the Brüning cabinet, which governed with the help of presidential emergency decrees after the last government with a Reichstag majority had collapsed in March 1930, pursued a policy of deflation (Kolb and Schumann 2013). As in many other countries, prices fell throughout the depression years, whereas unemployment skyrocketed to

[1] Data on inflation from Rahlf (2015) and unemployment from Petzina, Abelshauser, and Faust (1978).

more than 6 million (Figure 1).

The economic history of the Weimar Republic could thus underwrite two very different narratives: one centered on hyperinflation and another one centered on mass unemployment.

2.2 Collective Memory and Political Beliefs

The notion that ideas can persistently affect political and economic developments on the domestic and international level is widely shared amongst social scientists (e.g., Berman 1998; Blyth 2001; Goldstein and Keohane 1993; McNamara 2006). Firstly, scholars argue that individual ideas and preferences are shaped by personal history and biographic experience (Neundorf, Gerschewski, and Olar 2019). This is also true of monetary policy preferences: Berlemann and Enkelmann (2014) claim that East Germans are more inflation averse than West Germans because they had lived in an economy with centrally administered prices and needed to adapt to the changing prices of the free market economy. Studying 23 OECD economies, Ehrmann and Tzamourani (2012) find that individuals who experienced a period of hyperinflation during their lifetime report higher inflation aversion even many decades later (see also Malmendier and Nagel 2016). Even members of central bank committees make higher inflation forecasts when having experienced high inflation (Malmendier, Nagel, and Yan 2017).

Secondly, scholars stress the role of more encompassing narratives that stem from a collective historical rather than an individual experience (Büthe 2002). This type of argument, which emphasizes the impact of events that sometimes date back a century or longer, underwrites a growing number of empirically sophisticated studies that have found effects of historical events – from plague-era pogroms to 1960s civil rights protests – for example on voting behavior (Mazumder 2018; Ochsner and Rösel 2017; Voigtländer and Voth 2012).

Against this background, the claim that the economic events of the Weimar Republic matter for the way inflation is perceived in Germany's present economic discourse seems highly plausible (Granville 2016; Hayo and Neumeier 2016; O'Callaghan 2012; V. Schmidt

2014; Shiller 1997). Because of the devastating repercussions of the collapse of Germany's first democracy, Weimar quickly turned into one the most important reference points in German politics after 1945 (Gusy 2003; Stolleis 2004). Building on the democratic legacy of Weimar while, at the same time, avoiding the political and economic developments that lead to its decay became the sine qua non of German policymaking.

A consensus about the importance of a specific historical event, however, does not necessarily imply a consensus about its meaning. Scholars working in the field of memory studies have for a long time stressed that there is no linear relationship between historical events and today's politics. As Olick and Robbins (1998, 128) put it, "the past is produced in the present and thus malleable." Public memory of history is likely to be selective, distorted, and subject to changes over time for at least two reasons. First, memorizing the past takes place in a cultural context and within intersubjective frameworks. Even without deliberate manipulation, this makes collective memory and historical recollection inevitably selective due to generalizations, forces of habit, and the continuing relevance of some aspects of history over others (Assmann 1995; Halbwachs 1992). Second, the past provides useful resources for agenda-setting as well as advocating in favor of certain interests. Research in political science has recently started to investigate how political actors invoke historical experience to make certain issues more salient in political debates (Howarth and Rommerskirchen 2013; Ochsner and Rösel 2017; De Vries 2020). Elites may even purposefully construct certain imagined forms of history to serve specific political ends (Olick 2007). People exposed to these narratives could start to persistently misperceive history accordingly (Nyhan 2020).

Especially with regard to Weimar economic history, we have good reason to assume a crucial role of elites in keeping certain memories alive, since the role of personal exposure is declining. Indeed, it is well known that these elites do not transmit a neutral version of economic history but select or highlight certain aspects of it. For example, the Christian Democrats use "stability culture" as a rhetorical device to justify a variety of economic policies (Howarth and Rommerskirchen 2013). Something similar also holds for hyperinflation more specifically. As

Mee (2019) shows, its important place in public memory did not develop organically, but is the outcome of the strategic use of the 1923 hyperinflation narrative by the Bundesbank.

While the literature thus agrees that public discourses about Weimar economic history focus on hyperinflation, it is not a priori clear what consequences this has for collective memory. Hyperinflation could either have eclipsed the Great Depression from public memory, or it could have incorporated it. We argue that the latter effect is more likely: The focus on hyperinflation makes it seem as if the Great Depression was an element of hyperinflation, instead of being a separate crisis. Such a conflation would help to explain why the hyperinflation narrative is so powerful, since it would make hyperinflation appear even more dramatic.[2]

In general, elite discourses in Germany do not consciously (or even intentionally) conflate the two crises. Rather, elites themselves sometimes fall victim to the conflation, which then becomes directly visible. Take the example of former Federal Minister of Economic Affairs Rainer Brüderle, who in a 2011 parliamentary debate about the European Stability Mechanism declared that: “One lesson of history is this: when money gets bad, everything gets bad. We have experienced this in German history: from hyperinflation to mass poverty all the way to the war and the fatal aberrations in Germany” (Deutscher Bundestag 2011, 15211, own translation). Similarly, the influential newspaper Die Zeit recently argued that “when Germany was sucked into the vortex of the Great Depression, it was no wonder that political extremists, primarily the Nazis, benefitted most from *hyperinflation*, factory closings, mass unemployment and government chaos” (Klingst 2018, own translation, emphasis added). Apparently, equating the Great Depression with hyperinflation sounded so normal that nobody in the paper’s newsroom spotted the mistake.

In summary, we argue that a historic event and the collective memory of it can be two

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[2] The presentation of Weimar economic history in German schoolbooks may contribute to this conflation. While these books of course accurately present the two crises as separate events, they often do so in a single chapter devoted to the “economy” or “economic crisis” (see Appendix), which may also lead to a diffuse memory of economic crisis.

very different things. Elite discourses keep the memory of Weimar economic history alive, but in such a way that these crises are not remembered as separate events. Hyperinflation absorbs the Great Depression in the collective imagination. As a consequence, the crises of the Weimar years are often remembered as one encompassing crisis centered on hyperinflation.

3 Research Design

To understand how Germans conceptualize Weimar economic history, we conducted a representative survey in Germany (n=2314). Moreover, we conducted a parallel survey in the Netherlands, to construct the counterfactual for how the Great Depression is conceptualized in a country without hyperinflation (n=938).[3]

Demonstrating that many Germans conflate the Great Depression and hyperinflation is challenging. It is not enough to show that Germans remember both very high inflation and mass unemployment when being asked about Weimar economic history. Instead, we need to show that they remember these phenomena as two dimensions of the same crisis. To do so, we exploit the fact that conflation implies that respondents will associate both crises with the same phenomena when asked to consider either of them. We thus asked respondents explicitly about one crisis in order to see whether they attribute aspects of the other crisis to it. In doing so, it is more revealing whether Germans attribute very high inflation to the Great Depression than whether they attribute very high unemployment to the hyperinflation period. After all, the former attribution provides the even clearer conceptual mistake, since the Great Depression was a period of *deflation*.

We use two different approaches to operationalize our strategy, randomly assigning respondents to three different experimental groups (Figure 2). For our first approach, we ask

[3] The German survey was conducted by Qualtrics, the Dutch survey by Respondi. Both surveys were fielded in January 2019.

a group of respondents in an open question to name up to three specific problems that characterized the Great Depression. If people indeed conflate the two crises, a large number of respondents should mention inflation, whereas almost no one should mention deflation. Moreover, this question allows us to assess whether people have merged the two crises into a single Weimar economic crisis or whether hyperinflation has simply eclipsed the Great Depression in public memory. In the former case, people should mention inflation and mass unemployment; in the latter case, they should only mention inflation.

For our second approach, we use a second and third experimental group. Respondents in the second group receive a brief description of the Great Depression and are then asked to estimate the inflation rate at the height of this crisis. Here, we expect a majority to estimate high inflation rates and hardly anyone to estimate negative rates. However, to demonstrate that people really conflate the two crises and do not just think that the Great Depression was another period of quickly rising prices, we need a counterfactual of how a distribution of actual hyperinflation estimates would look like. Fortunately, we can generate this counterfactual in the German survey: we briefly describe the hyperinflation to a third experimental group and ask respondents to estimate the inflation rate at the peak of this crisis. Their responses allow us to observe how people conceptualize hyperinflation when explicitly asked to do so. If everybody believed that the Great Depression and hyperinflation were the same event, both distributions of inflation estimates should be identical.

Yet, we still do not know how people would conceptualize the Great Depression if they did not conflate it with hyperinflation. Perhaps, people just believe that the Great Depression was a period of very high inflation, independently of any link to hyperinflation. Hence, we need a counterfactual of how a distribution of Great Depression inflation estimates would look like. We cannot generate this counterfactual in the German survey, due to the suspected confounding. To create the counterfactual, we thus conducted a separate survey in the Netherlands, in which we asked participants to estimate the Dutch inflation rate at the peak of the Great Depression. Whereas the Dutch are also known for their conservative, inflation-averse economic preferences, the Netherlands never experienced a period of hyperinflation. Dutch respondents should, thus, have no reason to conflate the Great Depression with hyperinflation.[4] If every German was able to distinguish the Great Depression and hyperinflation, the Dutch distribution of estimates for 1932 should be statistically indistinguishable from the German.

Using these distributions as benchmarks, we can analyze whether the distribution of German estimates for the Great Depression is more similar to a "pure hyperinflation" or a "pure depression" counterfactual. If it is more similar to the former, many Germans conflate hyperinflation and the Great Depression, since they apply a "hyperinflation estimate" to 1932. If it is more similar to the latter, most Germans conceive of the two crises as separate events. Figure 2 summarizes this research design. When evaluating our hypotheses, we will thus rely on two separate types of evidence: the German responses to the open question about 1932 and the comparison between German estimates for the 1932 inflation rate and the counterfactuals for an "unconflated hyperinflation estimate" and an "unconflated depression estimate".

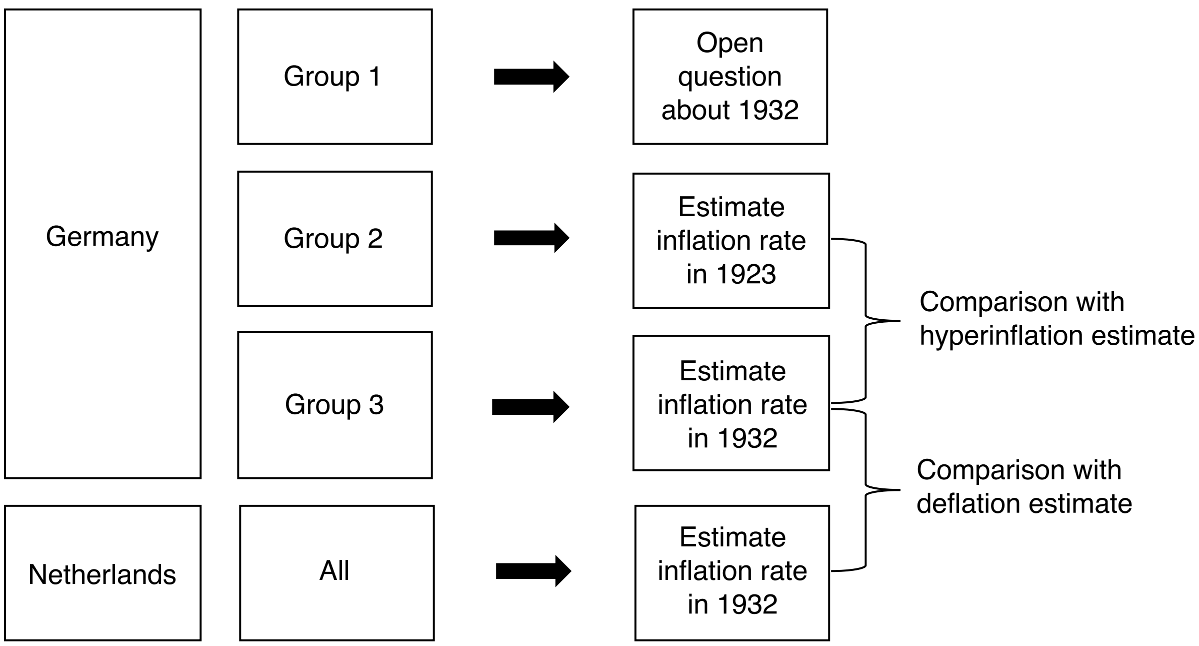

Figure 2: Survey Flow

[4] In fact, Dutch prices fell throughout most of the 1920s and 1930s (Den Bakker 2009).

These analyses allow us to compare differences between the actual estimates of Germans and two counterfactual estimates. However, it is likely that there are also important differences within the actual estimates. Not all Germans will reflect about Weimar to the same extent. Among those that have a specific image of Weimar economic history, this image may differ quite substantially. Hence, we collected a number of demographic and attitudinal variables in order to test whether there are significant differences in Weimar memory between different groups of Germans.

Firstly, we asked people about their age and their gender. It is quite likely that older Germans have a more vivid memory of Weimar history, since they may have heard about it first-hand from their parents. Vividness, however, does not necessarily imply correctness. Hence, the effect of age may go either way. Moreover, age and gender may affect how people approach an estimation task, irrespective of its concrete content. Secondly, we asked about respondents' education levels. After all, to conflate two historical events, respondents need to be aware of these events in the first place. This suggests that more educated people may be more likely to conflate the two crises. Moreover, education may again affect how people approach an estimation task. Third, we asked whether respondents grew up in or outside of Germany. Respondents who did not go to school in Germany should be less likely to confuse the crises, since they were likely much less exposed to them in the first place. Fourth, we asked people about their level of political interest. To the extent that Weimar is a prominent frame in German public debates, as described above, the prevalence of this frame will likely depend on how much exposure to these discourses people have. Fifth, we also asked about respondents' income, since inflation may be a bigger concern for people with higher incomes (typically savers) than for respondents with lower incomes. Finally, we asked whether people position themselves on the political left or the political right, since inflation is often considered to be a partisan issue, with people on the political right being more critical of inflation, whereas people on the political left attach higher importance to unemployment.

In the following analyses, we first investigate how Germans in general remember the

Great Depression (Section 4) and how this differs from the two counterfactuals (Section 5). Afterwards, we use the demographic variables to dig deeper into the question of who is most likely to misremember Weimar (Section 6).

4 What Do Germans Associate with the Great Depression?

We start our analysis with the results of the open-ended question that asked a subgroup of participants (n=254) to name up to three economic problems that characterized the German economy during the Great Depression in 1932. Our question read as follows:

In the early 1930s, the German economy experienced the deepest crisis in its history. This crisis is known as the Great Depression. One of the worst years of this crisis was the year 1932. Can you tell us up to three specific economic problems from which the German economy suffered in 1932 (keyword suffices)?

Of the 254 respondents, 209 identified at least one economic problem. Slightly more than 82% of our respondents thus apparently perceived to have some basic understanding of Weimar economic history. This corresponds to the fact that 81% reported to have heard about hyperinflation before. Amongst these 209 respondents, by far the most common response was unemployment (Table 1). When we add up all relevant responses (e.g., “[mass] unemployment”, “no jobs”), 119 (57%) respondents mentioned unemployment. While a majority thus correctly identified a key problem of the Great Depression, the second most common response was inflation. Again, adding up all relevant responses (e.g., “[hyper]inflation”, “currency devaluation”), 80 (38%) respondents mentioned inflation. 51 (24%) respondents mentioned both unemployment and inflation. Importantly, just eight respondents mentioned a problem related to deflation (e.g., “deflation”, “price decline”). Finally, 61 respondents mentioned other problems such as poverty or reparations.

Table 1: Distribution of Responses to Open-ended Question about the Great Depression

	Inflation	No inflation	Sum
Unemployment	51 (24%)	68 (33%)	119 (57%)
No unemployment	29 (14%)	61 (37%)	90 (43%)
Sum	80 (38%)	129 (62%)	209 (100%)

Many Germans, thus, associate the Great Depression with rising instead of declining prices. While this provides first evidence in line with our claim, it does not yet tell us that they indeed conflate it with hyperinflation. After all, "inflation" could just refer to moderately increasing prices. To pin down more precisely what people have in mind when they think about the Great Depression, we asked a second group of respondents (n=1036) to estimate the inflation rate in 1932 and anchored their expectation by giving them the current level:

In the early 1930s, the German economy experienced the deepest crisis in its history. This crisis is known as the Great Depression. One of the worst years of this crisis was the year 1932, when the German economy shrank by 7% and the unemployment rate reached 30%. What do you think was the inflation rate in 1932? That is, by how many percent did prices change in this year? (for comparison: the inflation rate in 2017 was 1.8%.)

Figure 3 shows how respondents answered this question. We display the original inflation estimates on a log-transformed scale, using an inverse hyperbolic sine function to handle negative values.[5] It demonstrates that a majority of Germans assumes that the Great Depression was characterized by very high levels of inflation. More than half of our respondents stated that the inflation rate in 1932 was larger than 10% and about 15% estimated that it was even 100% or higher. By contrast, only 10% of respondents estimated a number below the anchor of 1.8%, and just 5 respondents (out of 1063) provided a negative number, that is, deflation.

[5] Log-transformation: $arcsine(inflation_{guess}) = ln\left(inflation_{guess} + \sqrt{{inflation_{guess}}^2 + 1}\right)$

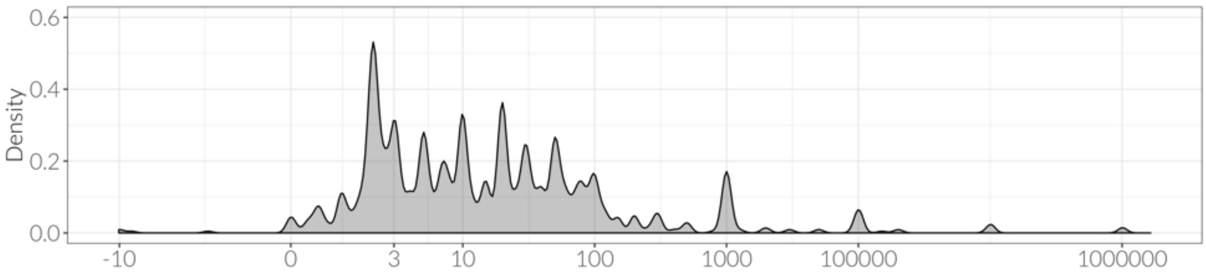

Figure 3: Distribution of Inflation Estimates for Germany during the Great Depression

In summary, when we do not prompt respondents in any direction, 40% of Germans think that the Great Depression was a period of inflation, whereas only very few are aware that the early 1930s were a period of deflation. Moreover, when we prompt respondents to think about inflation during the Great Depression, a large majority estimates strongly rising prices.

5 Does Remembrance of the Great Depression Differ from Counterfactuals?

We interpret the findings presented so far as evidence that a large group of Germans conceptualizes the Great Depression and hyperinflation as the same. However, one could argue that respondents simply tend to associate one bad thing (high inflation) with another (economic depression). To disentangle these possibilities, we compare this distribution with the two counterfactuals described above. As a counterfactual for an unconflated "hyperinflation estimate", we use the distribution of estimates for the inflation rate during hyperinflation. That is, we asked a subset of our respondents (n=523) to estimate the inflation rate in 1923:

In the early 1920s, the German economy experienced a deep crisis. Because of the rapidly rising prices, this crisis is known as the hyperinflation crisis. The hyperinflation reached its peak in 1923. What do you think was the inflation rate in 1923? That is, by how many percent did prices change in this year? (for comparison: the inflation rate in 2017 was 1.8%.)

Moreover, the question contained a photo of kids playing with valueless piles of banknotes (see Appendix). By adding this photo and by explicitly defining hyperinflation as a period of "rapidly rising prices", we primed respondents to make a particularly high estimate. Since this maximizes the difference between the Great Depression question and the hyperinflation question, this distribution provides a particularly hard test for our hypothesis.

As a counterfactual for an unconflated “depression estimate”, we use responses from the Dutch survey. Dutch respondents received the same question about 1932 as Germans (see above), adapted to the Dutch context and including information about the economic circumstances in the Netherlands during the Great Depression.[6] This gives us the distribution of estimates by people who have arguably never been exposed to the hyperinflation frame.

Figure 4 compares the German 1932 distribution of retrospective inflation estimates with these two counterfactuals. It shows that German inflation estimates for the Great Depression look much more similar to the distribution of hyperinflation estimates of German respondents than to the estimates given by Dutch respondents. When we ask respondents to think about the hyperinflation as a period of “rapidly rising prices”, about 70% pick inflation rates of above 10% (compared to about 51% for 1932), which suggests that people already perceive 10% as an extremely high rate of inflation. Moreover, 36% go for 100% or higher. Even if we ask explicitly about hyperinflation, about a quarter of respondents seem to orient themselves towards the anchor provided in the question and estimate 5% or less. While estimates for hyperinflation are, thus, on average higher than estimates for the Great Depression, the distributions of answers for these entirely different crises are remarkably similar.

Things look very different for the Netherlands. Similar to Germany, only a handful of Dutch respondents are able to correctly identify the Great Depression as a period of deflation. Thus, it seems to be a rather universal phenomenon that people do not know about the deflationary history of the Great Depression. However, there is also an important difference: almost all Dutch estimates remain within the bounds of relatively recent inflation experiences and remain far from associating the 1930s with a time of hyperinflation. More than 60% cluster around

[6] We informed respondents that the Dutch economy shrank by 2% and the unemployment rate reached 16% in 1932, and that the inflation rate in 2017 was 1.4%.

the current inflation anchor and assume inflation rates of up to 5%. This would appear to be a normal range, given that Dutch inflation reached more than 10% in the mid-1970s and more than 7% in the early 1980s. Many Germans by contrast, are much higher than anything experienced in living German memory. Contrary to these Germans, less than a fifth of Dutch respondents estimate that prices rose by more than 10 percent and less than 1% of respondents stated inflation rates above 100%.

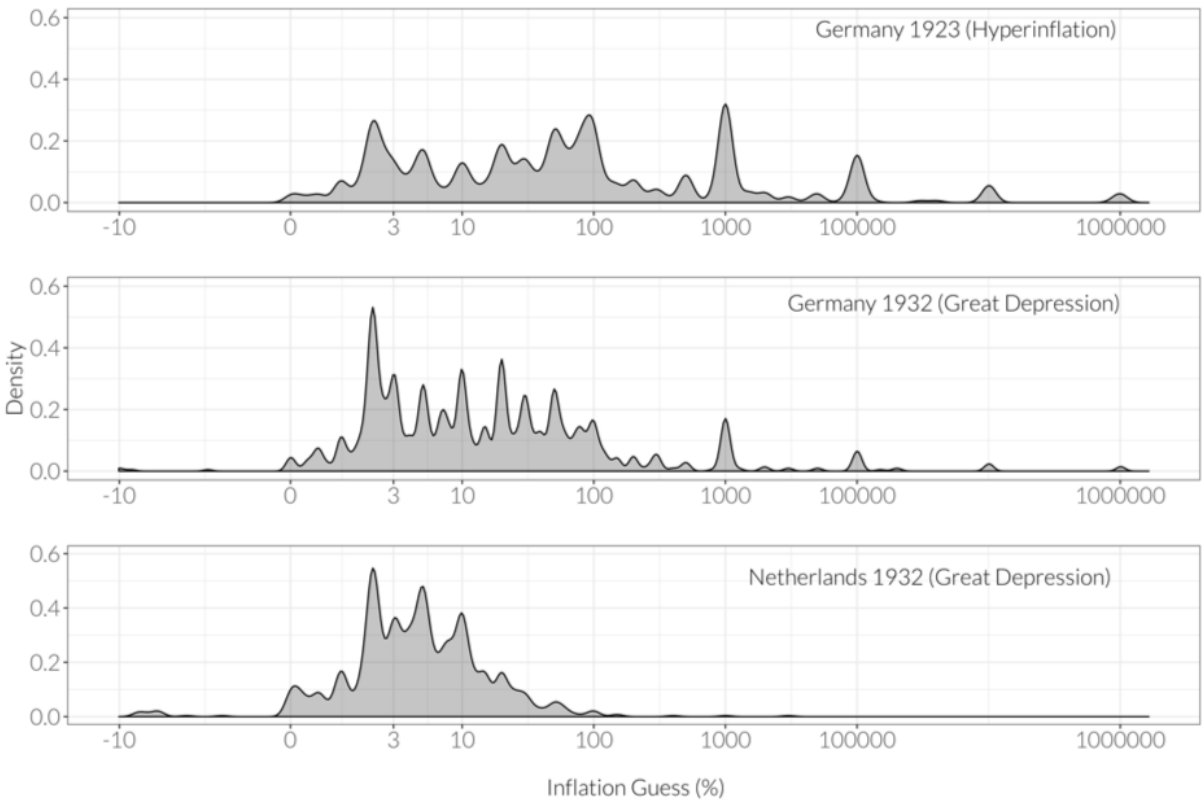

Figure 4: Distribution of Inflation Estimates in Germany and the Netherlands

We thus conclude that the distribution of German estimates for inflation rates during the Great Depression looks much more similar to a “pure hyperinflation counterfactual” than to a “pure depression counterfactual,” even if Dutch respondents also tend to overestimate inflation rates during the Great Depression. As the comparison with estimates with 1923 suggests, this phenomenon occurs because many Germans rely on their memory of hyperinflation when asked to think about Great Depression.

6 Who Misremembers Weimar in Germany?

As the preceding section has demonstrated, a large number of Germans seem to conflate the Great Depression and hyperinflation and to perceive them as a single Weimar economic crisis. However, not all Germans do so. In this section, we seek to explore which Germans are particularly likely to commit this fallacy and regress the log-transformed inflation estimates on a variety of respondent characteristics (Table 2).

Specifically, we test for an association of inflation estimates with education, political interest, gender, age, income, political ideology, and a migration history. Model 1 shows strong differences between Germans regarding education levels and self-reported political interest. The more educated people are (in years of formal education) and the higher their self-reported political interest, the higher is their estimate of the 1932 inflation rate.[7] Moreover, those who are able to correctly define inflation also estimate higher numbers. If we restrict the analysis to this group, education and political interest remain statistically significant.

While these estimates thus suggest a potentially important role of the school system for generating a false image of Weimar economic history, we do not find an effect of schooling outside Germany. However, this may simply be due to a small number of observations. Similarly, a migration background does not affect estimates. Older people make systematically higher inflation estimates. A more vivid memory, thus, does not seem to be a more accurate memory. Male respondents also make higher estimates, a pattern that is hard to interpret, but may signal that men are more willing to approach an estimation task more aggressively. Higher income respondents make higher estimates, which would be in line with the idea that they

[7] We further explore whether people who are more inflation averse make higher inflation estimates; i.e., whether overestimating inflation rates is simply a reflection of people's inflation aversion. For this analysis, we use a fourth group of respondents in the German survey, not used for the analysis in Table 2. We asked respondents in this control group about their inflation preferences, before we gauged them to estimate the 1932 inflation rate. Germans who are more inflation averse make even lower inflation estimates. Hence, inflation estimates are not simply an expression of people's attitudes.

have more reason to worry about inflation eroding their savings. Ideology, by contrast, does not affect estimates. This is rather surprising, since one might expect that people derive their image of history from their current preferences. However, this does not seem to be the case. Germans misremember Weimar irrespective of their own political left-right placement.[8]

While we thus find a number of systematic patterns in the German response, it is not clear whether they have substantive reasons or are simply indicators of different ways of approaching an estimation task. To disentangle these possibilities, we again make use of the Dutch survey. In model 2, we repeat the same regression for the Dutch sample. Apart from income, the results are very similar. Older, male, and more educated people make higher estimates in the Netherlands. This could suggest that the factors that predict estimates in Germany just indicate a general willingness to estimate higher numbers and reveal little about historic memory in Germany. Hence, we run a model in which we pool both countries and estimate interaction effects between respondents' country of residence and all individual-level predictors (model 3). This allows us to see whether effects differ between the two countries.

In this regression, political interest and education emerge as the main factors. Whereas gender, age, and income have similar effects in both countries, political interest and education have a significantly stronger effect in Germany. Put differently, the average estimate of German respondents is higher than the average estimate of Dutch respondents because politically more interested and better educated Germans make systematically higher estimates than their Dutch counterparts. This suggests that political interest and education really affect the substance of historical memory and do not just indicate something else. If highly educated and politically interested Germans are most strongly immersed in political discourses, this indicates that hyperinflation and the Great Depression are indeed framed as two dimensions of one overarching crisis.

[8] Results are similar for the answers to the open question as well as when we include a question if and in what context respondents had heard of hyperinflation before (Table A1 and A2 in the Appendix).

Table 2: Predictors of Transformed 1932 Inflation Estimates in Germany and the Netherlands

	(1) Germany	(2) Netherlands	(3) Comparison
Education in years	**0.065****	**0.020***	0.020
	(0.024)	(0.010)	(0.015)
Germany x Education			**0.045+**
			(0.025)
Political Interest	**0.369*****	**0.099+**	0.099
	(0.087)	(0.054)	(0.081)
Germany x Political Interest			**0.270***
			(0.107)
Can Define Inflation	**0.733****	**0.334***	0.334
	(0.237)	(0.153)	(0.230)
Germany x Define Inflation			0.399
			(0.300)
Male	**0.540*****	**0.260****	**0.260***
	(0.142)	(0.085)	(0.129)
Germany x Male			0.280
			(0.173)
Age in years	**0.010***	**0.009*****	**0.009***
	(0.004)	(0.002)	(0.004)
Germany x Age			0.001
			(0.005)
Income Decile	**0.066***	0.020	0.020
	(0.026)	(0.015)	(0.022)
Germany x Income			0.046
			(0.030)
Left-Right Placement	-0.044	0.010	0.010
	(0.033)	(0.020)	(0.030)
Germany x Left-Right			-0.054
			(0.041)
Migration Background	0.064	0.066	0.066
	(0.200)	(0.130)	(0.196)
Germany x Migration			-0.002
			(0.255)
School in GE/NL	-0.253	-0.201	-0.201
	(0.269)	(0.162)	(0.244)
Germany x School			-0.052
			(0.329)
Germany			-0.607
			(0.642)
Constant	0.162	0.768*	0.768+
	(0.543)	(0.309)	(0.466)
# of respondents	1036	938	1974
R-squared	0.097	0.069	0.185
AIC	4559.335	2974.129	7879.211
Prob > F	0.000	0.000	0.000

Notes: OLS models with standard errors in parentheses.

Significance levels: + p<0.10, * p<0.05, ** p<0.01, *** p<0.001.

7 Conflated History and Monetary Policy Preferences

A substantial part of the German public mushes hyperinflation and the Great Depression into a joint Weimar economic crisis narrative, which encompasses galloping inflation and skyrocketing unemployment. This fallacy is particularly prevalent among more educated Germans. But does this matter politically? In order to test whether this misunderstanding affects political preferences, we asked respondents a standard question regarding the trade-off between inflation and unemployment in order to measure inflation aversion:

What is your opinion: if the government had to choose between keeping down the inflation rate or keeping down the unemployment rate, which policy should the government prioritize?

Respondents were able to choose answers on a 7-point scale, ranging from a "strong focus to keep down unemployment" to a "strong focus to keep down inflation". Higher values thus indicate inflation aversion. The middle category states that both policy goals are equally important.

To tackle the question to what degree reminding Germans about different aspects of Weimar economic history changes their economic policy preferences, we again make use of our experimental setup. We only use respondents who had to estimate an inflation rate (i.e. we drop Group 1 from this analysis). We further split up Group 3 into three different groups that vary with regard to the information provided and the order of questions. This approach thus leaves us with four experimental groups in our survey that we primed differently about Weimar economic history.

We asked a control group (Group 3a) about their inflation preferences before priming them with any reference to German economic history. To analyze the effect of our historical primes, we compare their inflation preferences to the preferences of respondents that had been primed to think about either hyperinflation (Group 2) or about the Great Depression (Group 3b). Finally, another group received an information treatment after estimating the inflation rate in 1932 but before reporting their inflation preferences (Group 3c). Here, respondents read a brief statement explaining that there were two different crises, accompanied by a graphical illustration of the inflation rate from 1925 to 1936 (Figure A4 in the Appendix). This information treatment allows us to test whether any effects of Weimar primes can be counteracted by clarifying historical events.[9]

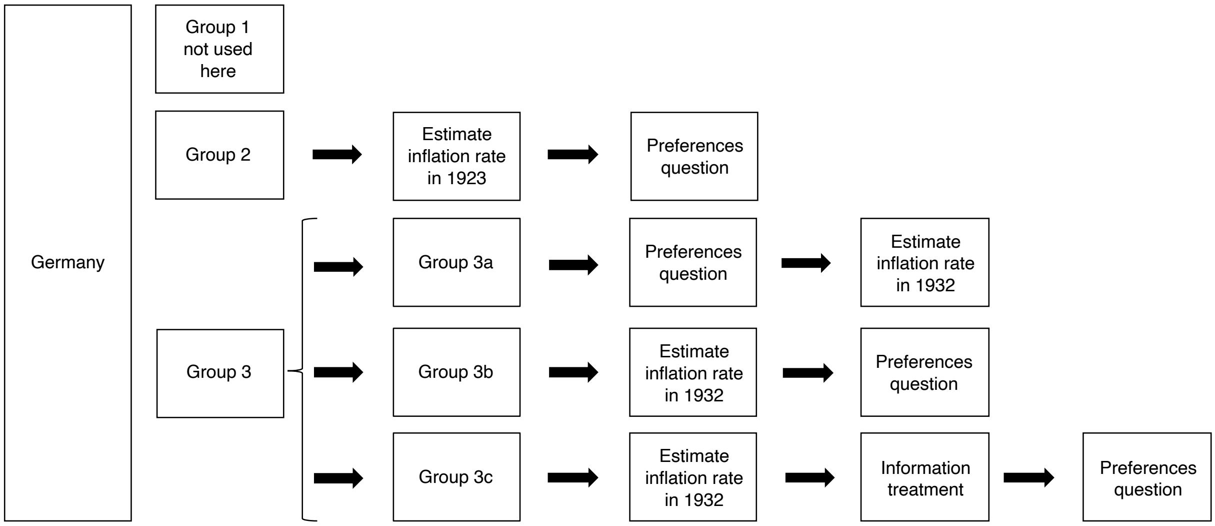

Figure 5: Survey Flow in Preferences Experiment

We first test whether reminding Germans of Weimar economic history affects their preferences with regards to fighting unemployment or inflation. Figure 6 starts by comparing inflation preferences across three main experimental groups: (1) Germans that we reminded of the Great Depression, (2) Germans that we reminded of the hyperinflation episode, and (3) the control group. Due to the suspected conflation we hypothesize that reminding people of either crisis does not make them more inflation averse.

Comparing average responses across these groups in Figure 6, we can clearly reject the idea that German inflation preferences are affected by making people think about Weimar. Aggregate inflation preferences do not differ at all across our experimental groups.

[9] To test whether respondents understood the information contained in the treatment, we asked all respondents to estimate inflation rates in the US during the Great Depression at the end of the survey. Those who had received the information treatment made significantly lower inflation estimates.

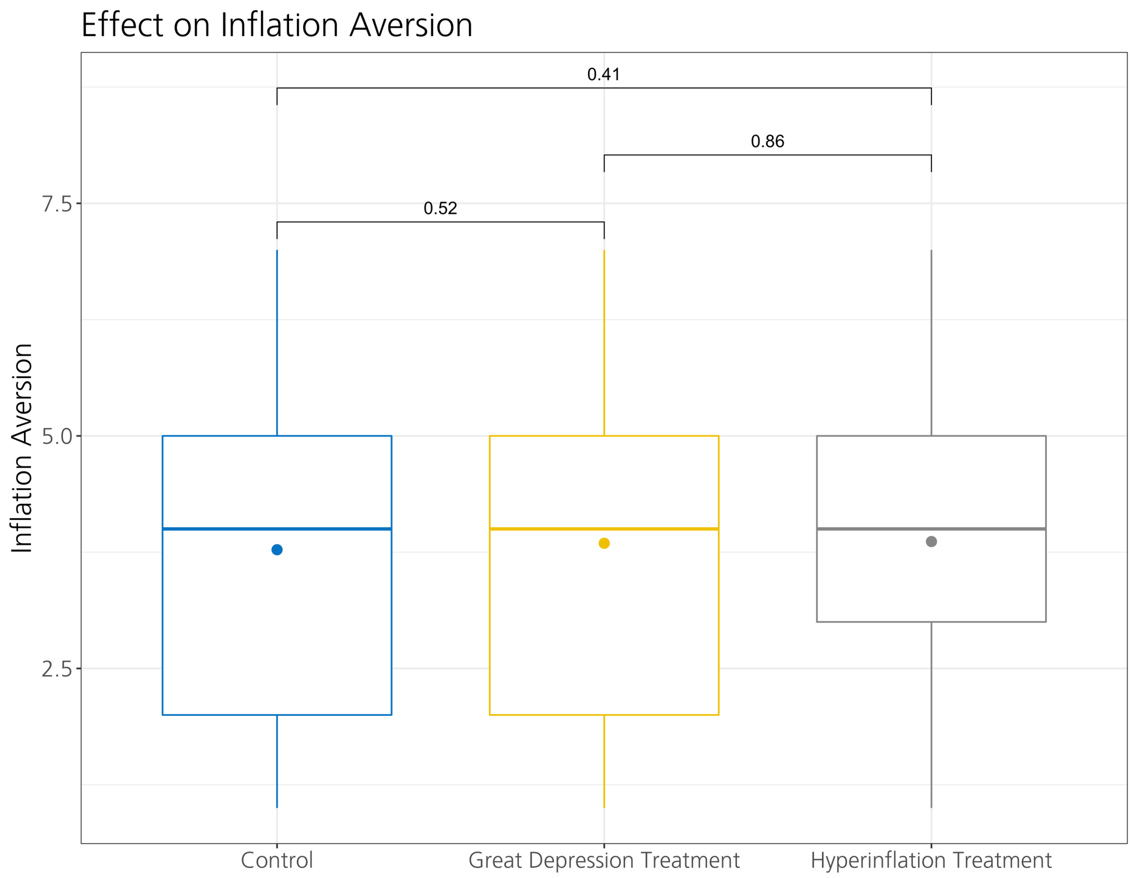

Figure 6: Distribution of Monetary Preferences across Different Experimental Groups

Note: Boxplots with mean inflation aversion. Brackets between groups show the p-values of t-test paired comparisons.

However, what is true of averages is not necessarily true for all subgroups. In fact, if our conjecture about the widespread conflation of the crises is true, it is not even clear why people should respond to the treatment. After all, we argue that the treatment activates memories of both very high inflation and mass unemployment. Hence, the treatment may simply increase the salience of both crisis phenomena.

A more plausible hypothesis might thus be that the treatment polarizes preferences, depending on which of the two economic problems people perceive as more important (Nyhan 2020; Taber and Lodge 2006). Respondents that are already predisposed to value low unemployment over stable prices may become even less inflation averse when reminded of a crisis that they associate with both high inflation and high unemployment. For respondents which tend to prefer low inflation over safeguarding jobs, on the other hand, priming both may result in higher inflation aversion. A large literature has shown that political ideology is one of the most consistent predictors for how individuals resolve the trade-off between inflation and unemployment (e.g., Scheve 2004). Against this background, we test the following hypothesis, relating to whether the Weimar primes lead to polarization of economic preferences along ideological lines.

H1: Reminding Germans of either hyperinflation or the Great Depression increases inflation aversion, but only for those who position themselves to the right of the political spectrum.

Figure 7 plots the marginal effect of both the hyperinflation and the Great Depression frame on inflation preferences across different self-reported ideological positions. It shows two main findings corroborating hypothesis 1: First, patterns look almost identical across the two different crisis primes. Whether we prime respondents to think about hyperinflation or the Great Depression does not seem to make any difference for the way in which this cue is received across the political spectrum. This further suggests that both primes trigger effectively the same type of historical memory.

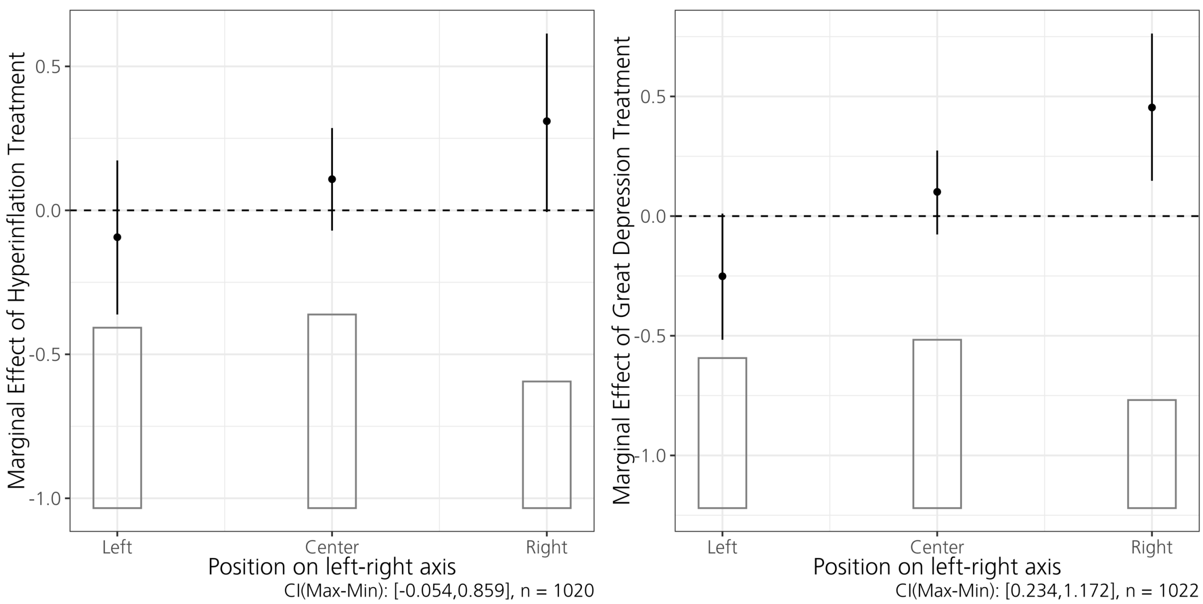

Figure 7: Marginal Effect of Great Depression and Hyperinflation Treatment on Monetary Preferences across the Political Spectrum

Second, the stability of average inflation preferences, indeed, hides a substantial polarization of preferences in response to the two economic history frames. Whereas respondents on the left become somewhat less inflation averse when confronted with one aspect of the Weimar economic crisis narrative (though the effect remains statistically insignificant), respondents on the right become significantly more inflation averse as a response to both the hyperinflation and the Great Depression frame. We interpret this pattern as further evidence for the fundamentally political nature of German collective memory. 'Weimar' is not a universal and self-evident frame that has become an essential part of the collective memory through an apolitical process of family transmission. Instead, it is part of an explicitly political discourse that targets (and apparently reaches) specific groups of German voters, exemplified by polarization along ideological lines.

In a next step, we test whether providing accurate information about the inflation rate during the Great Depression changes people's inflation aversion. If our political interpretation of misremembering Weimar were correct, we would also see differences in the effect of the information treatment (which we assigned to Group 3c) along political lines. In light of the suspected conflation of Weimar history, providing information should only be effective for those who are already predisposed to consider inflation a minor problem. Those who are already convinced that inflation is a big problem, on the other hand, should tend to ignore the information that conflicts with their prior beliefs. We thus hypothesize:

H2: Learning that the Great Depression was in fact a depression crisis only reduces inflation aversion among self-described leftists.

The results in Figure 8 support this hypothesis and suggest that people only react to treatments about Weimar economic history, when discourses about Weimar fits with their broader political worldview. Moreover, as we have seen in section 6, left-right orientation does not predict respondents' estimates of 1932 inflation rates. Thus, it does not seem to be the case that people invent a memory that fits their ideology. Rather, it is the question whether people react to the memory that seems to be driven by ideological priors.

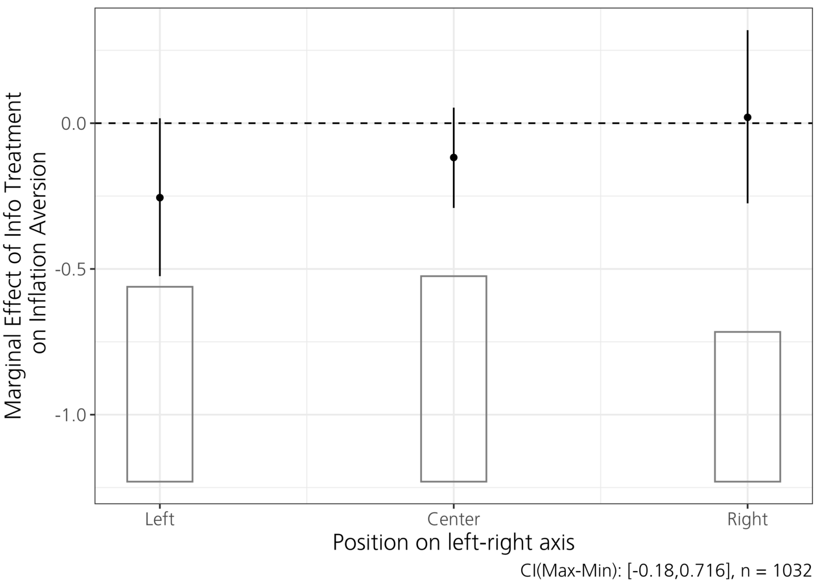

Figure 8: Effect of Providing Information on Monetary Preferences across the Political Spectrum

So far, we have presented results from a survey item that asks about respondents' trade-off between inflation and unemployment, which is a standard measure of inflation aversion. In addition, we also asked respondents to evaluate the use of monetary policy measures by the European Central Bank.[10] Here, we aimed at measuring reluctance to support a stronger response to the Euro crisis, i.e., reluctance to support measures that likely induce some price increases. This is an even harder test for our argument about Weimar priming, since it is an issue that is somewhat more removed from inflation. Using this outcome, we do not find statistically significant effects, both with regard to the hyperinflation or Great Depression treatment as well as the information treatment. This is, however, not surprising. Even when asking directly about inflation aversion, we only find conditional effects, which should make it even less likely to find any effects here. Evaluating ECB crisis policies does not directly link to inflation

[10] The question read: *The ECB has introduced several monetary policy measures to stimulate the economy in the Eurozone in recent years. Do you support or do you oppose these policies?* Respondents were able to choose answers from a 7-point scale, ranging from "strongly support" to "strongly oppose".

preferences, which means that we are only imprecisely measuring inflation aversion.[11] This notion is reinforced by the fact that our two outcome measures are hardly correlated in the unprimed control group.

Together, these results suggest that we should think of the Weimar economic crisis narrative less as a root cause of German inflation aversion, but rather as a political tool in debates about economic policy. Even though political preferences do not affect the likelihood of misremembering Weimar, Germans process the specific information they get about Weimar in line with their prior political beliefs. Mentioning Weimar, it seems, does not simply turn all Germans into arch-austerians. However, it allows to mobilize a specific subgroup of Germans, which is the natural ally of orthodox economic policies. Like "stability culture" in general, the Weimar narrative thus appears to be a strategic resource of the political right (Howarth and Rommerskirchen 2013).

8 Conclusion

What drives the economic policy preferences of the German public and the behavior of German governments in European or international economic diplomacy? Is it economic interest, based on a rational calculation of costs and benefits? Or is it ideas which are deeply rooted in the German collective memory? In this paper, we dig deeper into a prominent mechanism behind the ideas-based perspective: the role of German collective memory. While we find some evidence for the value of this perspective, our main finding is that the supposed German hyperinflation trauma is less a case of collective memory but rather a case of collective imagination. The hyperinflation that people believe to remember is very different from the hyperinflation that actually occurred.

[11] We already mentioned in our pre-analysis plan before fielding the survey that respondents might have difficulties relating ECB policies to inflation: "it is plausible that we might find stronger effects for the [other] measure (inflation-unemployment trade-off), as this question directly refers to inflation."

On the most general level, we find that the German collective economic memory indeed still refers to Weimar economic history until today. Consistently, about 80% of our respondents reported that they had at least some understanding of this period. This general awareness can easily be explained by the depth of the hyperinflation crisis of 1923 and the Great Depression of the 1930s. What needs an explanation, however, is what and how people remember.

Contrary to a widespread belief, we do not find that Germans somehow decided to remember one crisis, but forget the other. Germans are well aware of the fact that Weimar experienced a crisis of mass unemployment. What they do not know, however, is that this crisis was separate from the hyperinflation crisis. Instead of forgetting about the Great Depression, many Germans have incorporated it into their concept of hyperinflation. In this interpretation, unemployment and inflation appear as two facets of the same economic crisis. Thus, reminding Germans of "hyperinflation" triggers much more than just a fear of cash in wheelbarrows. What makes this symbol so potent is that it simultaneously triggers a fear of mass unemployment and poverty.

This finding has a number of important implications. First, it explains why Weimar can still be used as a powerful frame in contemporary debates, e.g. about the Euro crisis or about monetary policy in the Eurozone. After all, if references to Weimar suggest to Germans that inflation and unemployment are two sides of the same crisis-coin, Weimar references can be used to argue that anti-inflationary policies are good for growth while loose monetary policies endanger much more than just monetary stability.

That at least some Germans are indeed susceptible to such a Weimar frame is suggested by our analysis of the effect of Weimar memory on reported economic preferences. Contrary to what one might expect based on a simple "collective trauma" interpretation, reminding people of the Weimar experience does not make them more inflation averse across the board. However, it has an effect on Germans on the political right. German criticism of the ECB has always come from the right. Thus, those Germans who are already predisposed to oppose expansionary monetary policies become even more critical when reminded of the Weimar experience. Those with more favorable views of ECB policies, by contrast, do not react to the Weimar prime. References to Weimar are thus less a resource that can be used to change the preferences of all Germans, but rather serve as a tool to close conservative ranks in economic policy debates. This finding also speaks to the broader question of how political rhetoric and the usage of political metaphors affect political preferences. At least in our case, such narratives seem to be subject to significant confirmation bias. Voters respond to plausible narratives if they fit their preconceived beliefs but seem to largely ignore them otherwise.

Second, our findings have implications for the study of economic ideas and political preferences more generally. Researchers increasingly study the political consequences of historic events, arguing that events in the past impact belief systems today. Indeed, our study is based on the very same conjecture. However, we demonstrate that historic events cannot simply be taken as a given. People's behavior is not shaped by the event as such, but by their understanding of the event, as it has developed over the years and decades between the event and the present. Our results thus call for greater attention to the mechanisms through which the memory of historical events is being transmitted. In order to understand the social process that connects past experience with political behavior today, researchers should focus more on what people actually remember as well as how this collective memory is linked to its context.

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