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CIGARETTES AS CURRENCY

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The notion is widespread that for a long period of time and in a large economic area cigarettes served as currency in Germany after the recent war. Probably the most explicit statement of this belief, which the writer finds erroneous, is the following: "In Britain it [the cigarette] never, even at the height of the American occupation, went so far as to replace the existing metal or paper coinages. In occupied Europe it did." While we examine here only the German case, it is probable that situations similar in many respects existed elsewhere.

In order to understand the role played by cigarettes as money, it is essential to examine the historical background of the problem. Up to the fall of 1946 American cigarettes were not considered either as a general measure of value or as an instrument of exchange. The Reichsmark (henceforth RM) was still reasonably stable, black market trading was limited, and the worst period of Germany's economic decline had not yet begun. Although the price of cigarettes was very high, it was fixed by the general laws of supply and demand.

Usually cigarettes were sold for Reichmarks, which at that time could be exchanged by American and British soldiers for pounds or dollars. Consequently, a soldier could sell part of his ration, have all the money he desired for his non-military expenses, and still save his whole paycheck. Large dollar and pound profits were made in many cases.

However, in August of 1946 the Allies took steps to alter the situation. A partial conversion of cigarettes into a money medium came


2. German and other foreign cigarettes also played a role here but it was negligible for two reasons. One was that the American cigarettes have always been regarded as the best and the second that the Americans got a much larger ration than any other group of nationals.

3. The price in September, 1946, was approximately $150 a carton in Berlin; this varied widely.

4. Before the conversion stopped, i.e., in less than two years after the beginning of the occupation, Americans alone had sent to the United States through the single medium of army facilities more than $200 million in excess of that which had been paid to this personnel in marks by the army. Consider also that this may have been one of the less important ways to get profits home. See Jack Bennet, "The German Currency Reform," Ann. Amer. Acad. of Pol. and Soc. Sci., Vol. 267 (January, 1950), p. 44.
about when the Allied powers opened barter stores. These stores quoted prices in barter units. Since cigarettes partially meet the qualifications of a commodity money, they came to be regarded to some extent as a standard of value and at times even served as a medium of exchange. It should be emphasized, however, that barter stores were not sufficient to instil cigarettes in general use. There were only a few of them and they were never very important because more advantageous bargains could usually be made on the black market.

A more decisive reason for the increased employment of cigarettes as money came in September, 1946. In their efforts to stop the black market trade and loss of exchange due to the activities of their own nationals, the British and Americans decided to make illegal the conversion of Reichsmarks into dollars or pounds. They also attempted to prohibit almost all non-official financial transactions between Allies and Germans—a move that decided the extent to which cigarettes would play a monetary role until the currency reform, eighteen months later.

As long as conversion of RM into dollars was allowed, there was a fairly direct conversion rate which enabled the Germans to compute how many RM equalled a dollar from the rate of exchange given by the army to the soldier. With the decision to suppress "free" conversion came the worst depreciation. The Allied soldier could no longer profit from his cigarette sales in terms of dollar or pound profits at home. He was not at all disposed to change his salary into RM at what he felt was a low rate of exchange. Because of this, he used his ration of cigarettes (he also had people at home send more to him) directly for purchases instead of selling them. He turned away from the use of RM as often as he could because of the ever increasing depreciation of that currency (due not only to the lack of convertibility but also to such other factors as low production, too much money in circulation, etc.). He made his purchases with cigarettes and still sent his whole dollar salary home, but the former dollar profits were now much more difficult to obtain.

Thus cigarettes were to some extent a medium of exchange and a measure of value between Allied soldiers and German nationals for
about a year and a half. The currency conversion of 1948 and the new economic outlook attendant upon it had the effect of eliminating, for all practical purposes, any other money than the new Deutsch Mark.

Superficial observation is perhaps the cause of the widespread misunderstanding concerning the use of cigarettes as money in the German economy. It is important to remedy this confusion, whatever has caused it, by explaining that cigarettes did not find a great employment as money among Germans. There is much evidence pointing to this conclusion. Most important of this evidence is the fact that during the whole period under discussion, from the fall of 1946 to the summer of 1948, certain basic necessities such as food, rent, clothing, and transportation were price controlled and in some cases rationed. Even though one could not quite live on the rationed commodities, this control gave to the RM an undoubted monetary value.

Furthermore it is well known that a large number of exchanges in Germany took place in the form of barter, either directly or by compensation. It is difficult to know just how extensive this barter trade was. Estimates vary but the order of magnitude was from one-third to two-thirds of all business transactions. It is even more difficult to know exactly how important cigarettes were in this trade. However, we shall indicate below, in our discussion concerning the tobacco numeraire and the nature of the market, further evidence to support the conclusion that cigarettes could not have played a significant role.

Because of the widespread practice of barter, one should not conclude that cigarettes were the accounting unit. Surprising as it seems on the surface, the legally fixed price, or something close to it, was most often the basis for this "compensation trade." Tobacco was not a widely used numeraire in German business. In this German experience, one sees that money has many functions and that pressures forcing the abandonment of some of its advantages will not necessarily cause rejection in all of its uses.

The reasons for the different degrees of the employment of money in German markets as a measure of value and a medium of exchange are at once complex and interesting. Many years of rigid controls had accustomed the Germans to a high liquidity. A state of suppressed

8. F. Lutz in "The German Currency Reform and the Revival of the German Economy," Economica, XVI (May, 1949), p. 122, described this practice of compensation well. "Every firm has several specialists called 'compensators,' on its staff. If, for example, cardboard for packing was needed, the compensator might be obliged to barter the plant's own products for typewriters, the typewriters for shoes, and the shoes for cardboard."

9. Lutz, ibid., states "... the German economy rapidly deteriorated into a barter economy. ..." This is a bit exaggerated in my opinion. For a more realistic discussion, see H. Mendershausen, "Prices, Money and the Distribution of Goods in Postwar Germany," American Economic Review, XXXIX (June, 1949), pp. 646–72.

10. Mendershausen, ibid., has a full discussion of this point, especially pp. 655–57.
inflation existed and they were quite used to the idea of being able to spend their money only on certain things. However, the moment signs of inflation began to appear old memories rushed to the front. The Germans' psychological outlook completely changed, and the idea of any liquidity was abhorrent. But where controls existed, only a certain amount of money could be employed. In the uncontrolled section of the economy, prices were very high.

The effect of this on the businessman was quite interesting. He might in some cases sell on the black market at high prices. For those who were able this perhaps would lead to large quick profits. But almost certainly it would also lead to termination of his business. This was in part because of public opinion, which strongly supported controls, and in part because of the possibility of legal action. More important, the businessman saw at once that even with a large mark income he could not buy materials with which to continue production. He soon learned that the only sure way to get materials and stay in business was to exchange commodities for commodities.

We might conclude this discussion by adding that there clearly were not enough cigarettes to fill a small portion of German currency needs even when the low level of the domestic economy is taken into account. For the cigarette to have displaced even a significant fraction of the estimated 100 billion RM of cash and non-blocked bank deposits would have required far more cigarettes at a higher price than could ever have been available. Even if this were not the case, the cigarette is not an ideal money-commodity. It lacks durability and does not have the essential property of concentrating high value in small volume—to mention two major objections. It is a convenient barter commodity for small-scale transactions and was never used for more than this. There is simply no evidence to indicate that tobacco ever played a significant role in the German economy.

One of the main reasons for this false idea of widespread cigarette use as money is that Allied soldiers and civilians in Germany indulged in black market practices to a surprising extent. As a result, they felt, quite mistakenly, that all Germans behaved as did those who bought or traded their cigarettes.11

In summary, one can say that while cigarettes did play a monetary role in Germany, it was minor one, taking place only for a short period of time and in a limited economic area, primarily that between Allied nationals and a relatively small number of Germans. What use they did have can be directly traced to Allied administrative decisions.