HYPERINFLATION IN ZIMBABWE: A BRIEF HISTORY OF THE COUNTRY, AN EXAMINATION OF THE PROBLEMS AND CAUSES, AND A PLAN FOR IMPROVEMENT

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Abstract— **Zimbabwe is one of the world's poorest nations with a per capita income of $500 and purchasing power parity GDP of $6.9 billion in US dollars. Zimbabwe did away with its own form of currency in 2009, the Zimbabwean dollar, as a result of out-of-control inflation rates that virtually rendered the currency useless, the principal focus of this paper. Zimbabwe's unemployment rate of 95%, according to 2009 estimates, is the highest in the world, as official employment in the country is exceptionally limited.**

Keywords-inflation; hyperinflation; zimbabwe;

I. ABOUT THE STUDY

Zimbabwe, a country deriving its name from indigenous archaeological structures dating back to 800 AD entitled "Great Zimbabwe," is an impoverished African nation that gained its independence from the United Kingdom within the last five decades. In the 1800s, Cecil John Rhodes and his large, successful company, the British South Africa Company, met with the tribal chieftain of the area and had him sign documents that claimed a friendship with Britain and allowed no more than 10 white men to mine in the area. Included in this document, called the "Rupp Concession," were statements that contradicted what was previously specified to the chieftain—specifically, no mention of a limitation of white men allowed to mine—and a clause that expressly stated that operations could continue as long as and whenever necessary ("A Brief History of Zimbabwe").

With Rhodes' ownership of the area, and with the support of Britain, Rhodes requested support from the British government in an attempt to control the area that would later be named Rhodesia. Rhodesia was controlled under the auspices of colonial policies of Britain, advanced by the threat of heavily-armed British soldiers should a rebellion be attempted. Rhodesia adopted incredibly racist policies that prevented African or black people from owning property, voting in elections, or holding office, among other preventative and prohibitive policies adopted by the Rhodesian government ("A Brief History of Zimbabwe").

Finally, the people of Rhodesia decided they had enough of this—particularly the policies of the minority whites of old who almost entirely controlled the country. In 1965, the Unilateral Declaration of Independence, or UDI, was signed by Prime Minister Ian Smith despite strong protests by the courts of Britain and Rhodesia. No attempts were made to militarily reclaim the country, but economic sanctions were imposed that lasted 14 years. Finally, in 1970, a continuous war in support of independence broke out, led by the Zimbabwe African National Union and the Zimbabwe African People's Union, in addition to support lent by several independent African countries and the Soviet Union and China. This war ended in 1979 when the United Kingdom conceded and granted independence via a democratic constitution. Prime Minister Robert Mugabe, a current household name, was selected as the first prime minister of the independent country Zimbabwe in 1980 ("A Brief History of Zimbabwe").

Zimbabwe is one of the world's poorest nations with a per capita income of $500 and purchasing power parity GDP of $6.9 billion in US dollars. Zimbabwe did away with its own form of currency in 2009, the Zimbabwean dollar, as a result of out-of-control inflation rates that virtually rendered the currency useless, the principal focus of this paper. Zimbabwe's unemployment rate of 95%, according to 2009 estimates, is the highest in the world, as official employment in the country is exceptionally limited. The key industries in Zimbabwe are mining, especially of coal and precious metals, steel, wood products, cement, and chemicals, among others. Zimbabwe exports platinum, cotton, tobacco, gold, ferroalloys, and textiles, primarily to other African nations. Moreover, Zimbabwe is a net-importing country with a differential of nearly $1.3 billion USD ("Central Intelligence Agency").

The Republic of Zimbabwe is a parliamentary democracy with a chief of state and head of government. The current chief of state, President Robert Mugabe, was the first Prime Minister of Zimbabwe after its independence from the United Kingdom was granted in 1980. In the current day, the prime minister is now the head of government; this position is held by Prime Minister Morgan Tsvangirai. In addition to these governmental officials, there is a bicameral legislative body with a Senate, the upper house, and a House of Assembly. Despite this structured government, there is still significant political uncertainty in the country ("Central Intelligence Agency").

As was mentioned earlier in this paper, a period of hyperinflation destroyed Zimbabwe's currency and reduced the value—domestically and internationally—to essentially nothing. Jayson Coomer and Thomas Gstraunthaler, in their article in The Quarterly Journal of Austrian Economics,

attribute the roots of this hyperinflation to the nearly ten-year long war that was waged during Zimbabwe's fight for independence. Fiscal mismanagement and excessive military expenditures followed suit leading to an increasingly uncontrollable inflation rate (Coomer 312).

Coomer and Gstraunthaler define the beginning of the hyperinflation crisis between the years of 1997 and 2000. When the Zimbabwean government launched reform programs to assist the already-ailing economy, commercial farming was almost solely in the hands of "about 4,000 white commercial farmers; while the indigenous population continued to engage in subsistence farming" (Coomer 318). These subsistence farmers included veterans that helped in securing Zimbabwe's independence two decades prior, which led to the acting Zimbabwean government to provide financial assistance to "60,000 war veterans, each of whom were to receive an immediate compensatory payment of ZW$50,000 (the equivalent of US$ 3,000 at the time), alongside a monthly pension equivalent to US$ 125" (Coomer 318). However, these payments totaled 3% of the same year's GDP, leading to an immediate budgetary inflation of 55% compared to the year prior.

As a result of this drastic inflationary growth in such a short duration of time, the World Bank halted the Zimbabwean government's standing line of credit. To make matters worse, the war veteran population that received the payment package was still unsatisfied with the conditions they faced in their day-to-day life and the selection of property that was available. The government then decided that the only option was to commandeer a large portion of the white-owned commercial farmland for sale to native non-white Zimbabweans (Coomer 319). The government's takeover of these commercial farms was violent, as reported by Celia Dugger of the New York Times, and conducted through "violent invasions by thousands of Mugabe supporters" (Dugger). Perhaps more concerning than the abrupt policies themselves was the fact that the government of Zimbabwe failed to account for or refused to provide the financial data that would occur as a result of these policies—both the payout/pension plan and the land takeover program.

Dugger expounds on one of the more significant problems that this land-grab program caused, and that perhaps was an unforeseen effect in these violent takeovers. Inhospitable business conditions for the white commercial farms were part of the Mugabe regime's solution to the land deals that caused many to flee in search of more promising prospects. This, in turn, caused many black workers to be suddenly out of work and without an income. Consider this telling quote from Dugger's article "Zimbabwe: From Riches to Rags" in the New York Times:

"[The land acquisition policies] not only sent white farmers and professionals packing for other countries, it threw hundreds of thousands of black farm workers out of work. As its farming sector collapsed, what had been one of the breadbaskets of Africa could no longer even feed itself" (Dugger).

Nevertheless, and unsurprisingly, this started a massive "flight of foreign capital" from the country and "caused crashes in the Zimbabwean money and capital markets and exhausted the foreign reserves of the RBZ [Reserve Bank of Zimbabwe]" (Coomer 319). The 'Black Friday' of Zimbabwe transpired when the Zimbabwean dollar fell in value 75% against the United States dollar on November 14, 1997. Zimbabwe's debilitated economy was damaged further when President Mugabe decided to send an unbudgeted 11,000 troops to the DRC's Laurent Kabila to help quell a civil war perpetrated not only by disenfranchised DRC residents but also by Uganda and Rwanda.

The Economist Intelligence Unit's (EIU) Views Wire publication provides the serious consequences that occurred because of Zimbabwe's ubiquitous fiscal mismanagement: the overall index of measured manufacturing production fell by nearly 35% between 1999 and 2003. Perhaps more indicative of the dire situation in Zimbabwe is the discrepancy between 1999 and 2003 in foodstuffs production: a 42.9% decrease was the aftermath of a declining output and an increasingly unemployed labor force. The output of two of Zimbabwe's largest export industries fell harshly in that half-decade, as well: textiles by 63.3% and tobacco (which at one point accounted for one-third Zimbabwe's export balance) and drink by 35.6% ("Zimbabwe: Historical Data - Manufacturing Production").

Exploring the outcome of this declining economy with inflation figures—month-over-month and year-over-year—from Zimbabwe as calculated by Steve Hanke, an applied economics professor at Johns Hopkins University, and Alex Kwok, a research associate at an institute at Johns Hopkins University, decisively tells us how terrible the situation got. Between January 2007 and November 2008 is when Zimbabwe's inflation rate truly began to head to the point of no return. The year-over-year inflation rate rose significantly every month between the January 2007 and November 2008 time frame except for one insignificant reduction in August of 2007. The figures are staggering: starting in January 2007, the year-over-year inflation rate was 2,200.2%; by January 2008, this figure was up to 100,580.16%; by May 2008, the figure reached the millions: 2,233,713.43%; by August 2008, the percentage figure was in the billions; and finally, by November 14th, 2008, the figure was 89,700,000,000,000,000,000,000.00% with the month-over-month inflation rate being 79,600,000,000.00% itself (Hanke 3).

In these conditions, the currency becomes worthless; the following quote is from a Reuters article in January 2009: "Hyper-inflation has forced the central bank to continue to release new banknotes which quickly become almost worthless" (Banya). In order to combat the accurately-described constant devaluation of the Zimbabwean dollar, the government was at one point forced to introduce a 100-trillion dollar banknote that was worth $33 on the black market. Reuters again reports on the situation: "Previous issues of new banknotes have done little to curb the cash crunch faced by

Zimbabweans, who often line up for hours outside banks to withdraw barely enough to buy a loaf of bread" (Banya).

Since this period of turmoil in Zimbabwe, things are back on the road to recovery. In 2009, Mugabe's government lifted a long-time ban on foreign currency and quickly the U.S. dollar became the informal currency of the country. The Economist reports promising but still uncertain news on the inflation front in Zimbabwe:

"Now the American banknotes the economy relies on have to be begged, borrowed or earned. Even so, the monetary system works surprisingly well. A scarcity of greenbacks keeps inflation in the low single digits. The economy has made up much lost ground" ("Zimbabwe after Hyperinflation: In Dollars They Trust").

One is also pleasantly surprised at the following figure from the same article: "Then came the hot money [USD] as violence after disputed elections in 2008 receded and the economy recovered. Bank deposits increased by 31% last year, to $4.4 billion" ("Zimbabwe after Hyperinflation: In Dollars They Trust"). Though things are not for certain in Zimbabwe, they are headed in the right direction; a direction that many would not have thought possible in late 2008.

Though the economy is currently improving, there are several things the Zimbabwean government should focus on to develop growth steadily and sustainably. First, there are many positives that Zimbabwe should take advantage of: exploration missions for precious metals, especially copper, gold, and platinum, as well as diamonds, and the development of the infrastructure necessary to harvest these desirable resources and transport them safely. Not only would this add to the infrastructure of the country, but would also create at least short-term jobs to assist in building this infrastructure and consequently lowering the unemployment rate. Additionally, and without detracting from the industrial progress of the country, agriculture should be focused on to get those that are unemployed back into the labor force and working; trained farmers should take on management of the underperforming or unused commercial farms, thus employing manual laborers in the process and improving lives.

As for the flipside of the coin, it is obvious that one of the pervasive negatives of the country is the government in control. Though strides have been made to include the opposition party in government decisions as evidenced by the selection of the new prime minister, Morgan Tsvangirai, Mugabe's regime has been accused of corruption and cover-up, scandal and poor decision making. An overthrow of the government is not what is being suggested, particularly because Mugabe is relatively old and should not retain power that far into the future. In this case, new leadership can take over; hopefully leadership that understands what needs to be done. Violence has subsided recently to an extent. Moreover, foreign direct investment in the healthcare system could be beneficial for companies' profits—a healthy worker is much easier to invest in. Unfortunately, this benefit won't be noticed right away.

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