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How Inflation May Topple Mugabe

By Roger Bate

Inflation in Zimbabwe has been steadily worsening for the past decade, and it now rivals the worst recorded inflations in history. “The only immediate hope for an end to this inflationary nightmare,” the author says in this article, “is if the presses are turned off and the Mugabe government simply runs out of currency.” If Zimbabwe keeps on its current course, it will soon resemble a medieval barter economy.

Amid Zimbabwe’s political violence is an economic lesson for anyone who does not keep an eye on inflation. The country’s dictator, Robert Mugabe, who was sworn in on June 29 to his sixth term as president, has killed a few hundred of his opponents in the past few months, but his country’s inflation is killing far more than that. With food aid only trickling back into the country and hundreds of thousands without enough cash to buy food, the crisis is deepening.

Consumer prices have more than doubled every month this year, in some cases doubling every week. A conservative estimate provided by Robertson Economic Information Services, a southern African consultancy, says that prices are now 3 billionfold greater than seven years ago—that is right: billion. The exchange rate is currently an astronomical 90 billion Zimbabwe dollars to one U.S. dollar. Furthermore, three zeros were removed from the currency a few years ago when new limited-time bank notes were issued, so the inflation is actually even worse.

When I first went to Zimbabwe back in 1996, US\$1 would buy you just Z\$8—a depreciation of exchange rate of perhaps 10 billionfold over twelve years. A decade ago, Z\$500,000 would have bought you a house; today, it cannot buy you anything.

Roger Bate is a resident fellow at AEI. A version of this article appeared in the *Wall Street Journal* on July 7, 2008.

Incredibly, the situation on the ground is even worse than any available data can reflect. Inflation numbers are almost meaningless, with some reports showing that prices triple now on a daily basis, and for some food items, prices double hourly. Hyperinflation is now at or beyond the status of the post–World War I Weimar Republic and post–World War II Hungary, the worst recorded inflations in history.

Joshua Kipuru (not his real name because he is concerned about reprisals for criticizing the government) told me that he gave up trying to get cash at his bank in Harare last Wednesday because the lines were too long and moved too slowly. In the end, he bought groceries with his debit card, which remarkably still works. The card, he explained, maxes out at just under Z\$10 billion. So he had to run it seventy-four times because his food bill was nearly Z\$730 billion. Buying anything is a “bizarre experience,” says Lucy Chimtengwende from Bulawayo, who spent US\$12 on lunch yesterday, with the bill in local currency being an astonishing Z\$1.1 trillion. The menu had no prices on it; prices are quoted and constantly changing. And if you want to pay by check, good luck. Most proprietors do not accept them, and those that do charge double the cash price because of the time it takes them to receive payment.

Chimtengwende was breaking the law by paying for her meal in U.S. currency (or “greens,” as they are known locally), as was the owner of the



In Zimbabwe today, Z\$50 billion will buy about two loaves of bread.

restaurant by accepting it. But the economy is dollarizing as the local currency literally becomes worthless: “We are billionaires and can’t buy anything,” Kipuru moaned.

The only immediate hope for an end to this inflationary nightmare is if the presses are turned off and the Mugabe government simply runs out of currency. There are local indicators of this; the lines to get cash from Harare’s banks are getting longer by the day, suggesting a restriction in the supply of banknotes.

And Mugabe’s supplier has also reportedly cut off the printing press. In the weeks prior to the March 29 election, the German company Giesecke & Devrient (G&D) ran its printing presses at maximum capacity, delivering

432,000 sheets of banknotes to Mugabe’s government each week. The money, equivalent to nearly Z\$173 trillion (US\$32 million at that time), was then dispersed among key constituencies, notably the security forces, as bribes.

After the March election, G&D kept the presses running, worsening the situation inside Zimbabwe. Thankfully, after a public protest outside its German headquarters, critical articles in the German and international press, and pressure from the German foreign ministry, G&D announced on July 1

that it would stop printing the bank notes. It is uncertain how much of a supply Mugabe’s regime still has, but with the current inflation rate driving demand for cash skyward, it is possible the regime will run out of notes in weeks, unless another supplier, perhaps from China, steps in.

While the international community, the African Union, and Zimbabwe’s neighbors may not be able to stop Mugabe, the economy might. With no means of exchange, a barter economy is already taking hold, with services being traded instead of cash. If Mugabe does not relinquish power soon, Zimbabwe will resemble a medieval economy—and a poor one at that—within weeks.

Also by Roger Bate:

AEI Press book:

Making a Killing

By Roger Bate

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Wall Street Journal article:

Mugabe Vows to Hold Power

By Roger Bate

“Robert Mugabe, the increasingly belligerent and unstable eighty-four-year-old Zimbabwean president, has a warning for those who might vote for Morgan Tsvangirai in next week’s presidential runoff: ‘We fought for this country, and a lot of blood was shed,’ he told the state-controlled *Herald* newspaper here. ‘We are not going to give up our country because of a mere X [on a ballot]. How can a ballpoint [pen] fight with a gun?’ . . .”

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