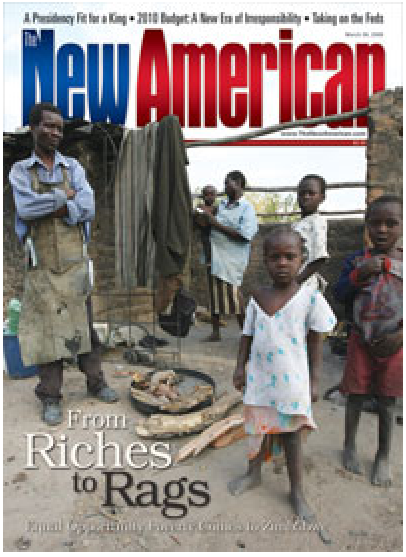
Written by on March 18, 2009

From Riches to Rags: Inflation & Poverty in Zimbabwe



There is an old story about an elderly German man who in 1919 was sent to an insane asylum. Early in 1923, the doctors decided that this man was cured and told him to take a taxicab to the home of his brother, which he did. Arriving at his destination, he asked the cab driver how much the fare was, and the driver told him that it was two hundred thousand marks. Horrified, since he had in his possession only a few coins that had been in his pocket when he was committed, he explained that he could not possibly pay such an amount.

"Let me see what you do have," said the cab driver. The old man took the coins out of his pocket and held them in the open palm of his hand. The cab driver picked out one of the old silver coins for his fare, and gave his passenger a million marks as change.

"Son," the old man shook his head and replied, "you might as well take me back to the hospital. I'm not cured yet!"

As bad as things were in Germany in the 1920s, the hyperinflation that has plagued Zimbabwe recently makes the Weimar Republic of that era look like a model of fiscal and monetary integrity.

The tragedy now unfolding in Zimbabwe provides the latest example that a government cannot create prosperity simply by cranking up the printing presses and creating previously unimaginable sums of money. All that course of action ever does in the long term is destroy the value of the currency. But this tragedy is not limited to inflation of the currency, as horrific as the inflation has been. It also shows the devastating effects of share-the-wealth politics, which becomes control-the-wealth politics wherever it is put into practice.

In Zimbabwe, the confiscation of private farms from the "rich," ostensibly to benefit the poor, has been devastating to the country's economy, and the government's attempt to paper over this devastation by creating ever larger sums of fiat (unbacked) money has harmed the economy even more. A few government officials have benefited from this devastation at the expense of almost all Zimbabweans.

Zimbabwe's Inflation Is Even Worse

Zimbabwe has shattered all previous records for inflated currency, effectively bringing the nation's economy to a halt. The nation's annual inflation rate rose from 1,000 percent in 2006, to 12,000 percent in 2007, to an immeasurable figure in 2008. Last August, the government devalued the currency by chopping off 10 zeros from bills. Had they not done so, the conversion rate would have risen to 10 trillion Zimbabwean dollars to one U.S. dollar!

Ironically, as nearly worthless as Zimbabwe's currency has become — the result of the tremendous inflation of its supply — it is in *short* supply to consumers. This is because Zimbabwe's central bank governor, Gideon Gono, instead of supplying the banks, began sending agents with suitcases filled with Zimbabwean currency into the streets to buy U.S. dollars and South African rand on the black market.

"Life in Zimbabwe: Wait for Useless Money," an article in the *New York Times* for October 1, 2008, described residents of the financially plagued country getting up around 2 a.m. to begin their daily wait in line at the bank. Because withdrawals of currency have been rationed, each customer could receive only the equivalent in Zimbabwean currency of one or two U.S. dollars per day.

The *Times* reporter interviewed a security guard named Stanford Mafumera, one of many Zimbabweans waiting in a bank line to obtain currency. When the reporter asked him for his opinion on the cause of his country's economic crisis, Mafumera replied that Robert Mugabe's regime had "chased away the white commercial farmers who had made the country a breadbasket … as well as donors from Britain and other European countries and the United States who sustained Zimbabwe's starving millions for years."

"A lot of people got farms, but they can't produce anything and this is what is causing the poverty and hunger," said Mafumera. "There's no food."

Though Mafumera is presumably no expert in economics, his understanding of the political dynamics within Zimbabwe concurs with that of many experts who have made similar observations, as well as recent developments reported in the news.

The BBC reported Timeson February 23 that even though the country desperately needs food, members of parliament, police, the military, and Reserve Bank of Zimbabwe officials — all loyal to President Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) party — have seized 77 white-owned farms within the last few weeks. Commercial Farmers Union President Trevor Gifford told the network that the seizures have taken place since the national unity government recently took office. The new government is the result of a coalition formed between the ZANU-PF party and opposition leader Morgan Tsvangirai, who was sworn in as prime minister on February 11. Tsvangirai, the head of the Movement for Democratic Change (MDC), the main opposition party, opposes the confiscations, and observers believe that officials loyal to Mugabe stepped up the rate of seizures before Tsvangirai could assume enough power to prevent them.

While the pace of land confiscation may have increased recently, it has been a routine part of an economically devastating policy that has existed since Robert Mugabe took control of Zimbabwe in 1980. The seizure of farms without compensation was prohibited by Zimbabwe's original constitution, so Mugabe initiated a referendum to amend the constitution to remove that prohibition. The newly formed MDC party — composed largely of white farmers, but also supported by much of the rural black population — opposed the referendum. A majority of Zimbabwean voters defeated it, but parliament disregarded their wishes and passed legislation authorizing uncompensated seizure of farms, which Mugabe signed into law on April 18, 2000 — the 20th anniversary of the fall of what was then Rhodesia to his communist-inspired regime.

Under Mugabe, white-owned farmland was seized and turned into Soviet-style collective farms, ostensibly "to correct colonial-era injustice." Naturally, food production plummeted, bringing widespread hunger. Instead of letting Mugabe's regime die a natural death, however, the IMF, World Bank, UN, USAID, and other agencies spent years pouring in aid to prop it up. As for the poor, black farmers, they never received any of the land from the seized farms, which wound up in the hands of President Mugabe's political allies, who often used the property for personal retreats.

That the seizure of white-owned farms will continue was confirmed by none other than Robert Mugabe himself during a lavish, $250,000, 85th birthday celebration held for the president on February 28, even as shortages of food, medicine, and other essentials have suppressed longevity in the country so badly that one in 10 Zimbabwean children dies before his fifth birthday. "Land distribution will continue. It will not stop," said Mugabe. "The few remaining white farmers should quickly vacate their farms as they have no place there." But as a group, it is not the white farmers who have suffered most from Mugabe's socialist land collectivization policies; most of them (the ones who haven't been killed by Mugabe's zealous followers) can always emigrate to greener pastures. It is the poor black Zimbabweans who are suffering from food shortages and the hyperinflation resulting from Mugabe's policies.

As the Zimbabwean man recently interviewed by the *New York Times* suggested, the seizure of white-owned farms played a key role in destroying Zimbabwe's economy. Even after 20 years of Mugabe's rule, such farms constituted the only productive sector of the Zimbabwean economy. Although the farmers represented less than one percent of the population, they were responsible for 25 percent of all employment in the country and 40 percent of the nation's export earnings.

The February 10, 2005 *Investor's Business Daily* noted that "in Zimbabwe, Robert Mugabe's dictatorship is imitating Stalin by seizing private farms and driving millions toward starvation."

As in all socialist governments, governmental micro-management of the economy produced a steady decline in the nation's productivity, gross domestic product, and standard of living. Starting in the 1980s, the Mugabe government eliminated the right of companies to fire workers, tripled government spending in areas such as education and healthcare, nationalized the country's utilities and agricultural marketing sector, and increased the government's share of the GDP. The government also set artificially low interest rates, which discouraged foreign investment. Foreign investment was also discouraged by the country's restrictive regulatory requirements, which made entrepreneurship difficult.

As the government sector outpaced the private sector in growth, government spending generated a chronic budget deficit, much higher taxes, and a rapid increase in the national debt. These factors all contributed to poor economic conditions.

Zimbabwe Goes From Bad to Worse

With its economy killed by socialist mismanagement, the "solution" implemented by Zimbabwe's government was *more* socialist mismanagement, this time of the nation's money supply.

Zimbabwe has a political position akin to our chairman of the Federal Reserve; it is the governor of the Reserve Bank of Zimbabwe (RBZ). Robert Mugabe appointed the current governor of the RBZ, Gideon Gono, in November 2003, and reappointed him last November to a new five-year term. Gono's ascension to this position typifies police-state politics, wherein loyalty to the strongman is more important than competence. Gono began his career with the state-owned Zimbank (Zimbabwe Banking Corporation Limited) in 1987 and moved in 1995 to the Commercial Bank of Zimbabwe (CBZ), in which the government of Zimbabwe acquired total shares in 1991 to avert its collapse. Tony Hawkins, a University of Zimbabwe economist who taught Gono 20 years ago, recently made this observation about his former student: "He was a good student but forgot whatever economics he learnt when he became a political player."

Gono, who has long been Robert Mugabe's personal banker, also used political connections to inflate his academic credentials. Jonathan Moyo (who became Zimbabwe's Minister of Information from 2000 to 2005) appointed Gono to head the University of Zimbabwe Council. A writer for the Zimbabwean tabloid *ZimDaily* noted in a July 17, 2008 article that it is common knowledge in Zimbabwe that, as the chairman of the university's council, Gono had himself awarded an honorary doctorate degree.

The *ZimDaily* writer was blunt in its criticism of Gono, not only for his failed economics policies, but for his ties to Mugabe's oppressive policies. After Gono was granted generous space in the pages of the state-controlled *Herald* newspaper a week earlier, the *ZimDaily* writer attacked Gono, saying the interview had "exposed Gideon Gono as a man in serious denial and an outright hypocrite who is trying to exonerate himself from the scorched earth policies he has been part of together with the military junta now illegally running or ruining the country."

The article continues:

> However, no matter what, the people of Zimbabwe and history will never absolve Gono for his naked complicity in destroying our beautiful country just to save his political master at all costs.

Speaking in forked tongues, Gono is quoted as having said that, "Of course I don't defend anyone who murders another person, tortures another person or anyone who perpetrates violence on another person or property of another person for whatever reason."

"Such people must be punished and dealt with through the law regardless of who the perpetrators of that murder, torture and violence are."

Any innocent person uninitiated about the Zimbabwean crisis would clap hands and say, well said Governor! However, it's something to say good things during the day and do exactly the opposite during the night.

This is rank hypocrisy and an attempt to play the angel for a man who is a Devil re-incarnate for he is part of the so called JOC that has been systematically and methodically planning, implementing and financing the violence that has created untold suffering to the innocent people of Zimbabwe.

The JOC mentioned by the *ZimDaily* writer is the Joint Operations Command, a national security think-tank made up of army, police, prison, and Central Intelligence Organization (CIO) chiefs, which reportedly plotted a violent campaign to secure Mugabe's victory in the June 27 one-man presidential election run-off, a charge they deny.

Since last July, of course, the economies of all the world's nations have declined, but Zimbabwe's has totally self-destructed. The United Kingdom's *Times* observed on February 3 that "Gideon Gono, widely regarded as the world's most disastrous central banker, knocked another 12 zeros off the Zimbabwean dollar yesterday in an attempt to bring the national currency back from the realms of the fantastical. In a stroke, the governor of Zimbabwe's Reserve Bank slashed the street value of the Zimbabwean dollar from $250 trillion to one US dollar to 250 [to one U.S. dollar], because the computers, calculators and people could no longer cope with all the zeros."

The article noted that the country's appalling annual inflation rate was 5,000,000,000,000,000,000,000 (five sextillion) percent.

And still, Gono was focusing much of his intention on finding ways to print even *more* bank notes. An article posted on allafrica.com on February 11 reported Gono's statement that his country's mint, Fidelity Printers and Refiners, needed 500 million U.S. dollars' worth of new investment — not to help Zimbabwe's *productive* segment — but to overhaul the worn-out presses so that printing capacity at the mint can be expanded immediately to meet demand!

That the issuing of new money is the economic cause of price inflation is not widely understood in Africa (and probably not in the United States, either, judging by congressional support for President Obama's "stimulus" package) is indicated by the article's lead-off sentence: "With Astronomic Inflation Requiring More and More New Banknotes, the Country's Mint is Finding It Hard to Cope."

Obviously, the writer of that sentence has not figured out that the increase of the supply of banknotes is what caused the price inflation to begin with. To say that astronomic inflation requires more banknotes is akin to saying that widespread arson requires more gasoline and matches!

Zimbabwe's Prime Minister Tsvangirai has attempted to remove Gono and other Mugabe-appointed officials in the new coalition government, though Mugabe has attempted to stop any such moves by making appointees permanent. In reaction to Mugabe's permanent appointment of the secretaries, Tsvangirai e-mailed a statement to Bloomberg news on February 25, in which he said: "The announcement of permanent secretaries has no force of law and is therefore null and void."

Tsvangirai blames Gono for Zimbabwe's decade-long economic crisis and Attorney General Johannes Tomana for arresting officials of his MDC. The dispute over Mugabe's appointments threatens the stability of the coalition government between Mugabe's ZANU-PF and Tsvangirai's MDC.

Meanwhile, because of the complete collapse of the Zimbabwean dollar, Tsvangirai has made the decision to start paying the country's soldiers and other government workers in U.S. dollars. "We will pay every civil servant in foreign currency," Zimbabwe's Finance Minister Tendai Biti told a news conference recently in Harare.

In order to obtain enough money to make a first installment of $100 each on soldiers' salaries, Finance Minister Biti said he had "juggled" the books. Civil servants, teachers, doctors, and nurses would receive a similar amount. Though it is far less than what they were previously paid, it is at least enough to put a little food on the table in the short term. Much of the currency has been sent back to Zimbabwe by workers who took jobs abroad. As we have noted, Gono acquired foreign currency by sending agents into the streets to buy U.S. dollars and South African rand on the black market.

During a press conference, Biti said: "We have to get Zimbabwe working again; getting teachers to school is part of efforts to get Zimbabwe to work again, having examination papers being marked is part of having Zimbabwe work again."

The nation's schools have been closed for months because inflation had reduced the worth of teachers' salaries to such an extent that they could not afford bus fare to get to work. Some teachers had sold snacks to students to earn a little cash.

The people of Zimbabwe have also been suffering a healthcare crisis stemming from the inability of the people to afford medical care in the country's economic climate, and from healthcare workers who have dropped out of the system to seek work in other countries. According to WHO statistics, a cholera epidemic that took hold in the country seven months ago has resulted in 82,130 cases of the illness and 3,817 deaths.

Zimbabwe's Lessons

Among the most important lessons that can be learned from Zimbabwe's economic and social crisis is that too much government will destroy both prosperity and freedom.

Zimbabwe is an example of an unrestrained socialist economy gone completely out of control. But socialism comes in many forms; some move quickly — communism can be described as "socialism in a hurry" — and others at a slower pace. But socialism invariably leads to the growth of government, which must be financed by higher taxes, borrowing, and/or inflation of the nation's currency. Generally, because to rely on one of these methods produces too much resistance from the population, the government employs all three methods.

However, for a government to inflate a nation’s money supply, it must divorce the nation’s money from fixed assets, such as gold, and turn to fiat paper currency. This requires a central bank, such as Zimbabwe’s RBZ, the Reichsbank (the central bank of Germany from 1876 until 1945), or our own Federal Reserve System. So essential is this feature to the socialization of a nation that the fifth plank of the *Communist Manifesto* called for the "centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly."

Zimbabwe’s hyperinflation was an extreme case that we may never see in the United States, but even the relatively more restrained inflation of the German Weimar Republic in the 1920s was bad enough to devastate the economy and set the stage for the rise of Adolf Hitler.

In today’s troubled economic times, Americans can follow the example of Germany or Zimbabwe and spend trillions of dollars to "stimulate" the economy, keeping the printing presses running day and night to pay the bills. Over time, the result will be hyperinflation and a ruined economy.

Or Americans can return to fiscal sanity, balance the budget, abolish the Federal Reserve, restore sound currency, and return to the prosperous economy and free political system our nation enjoyed during much of the 19th century.

The choice should be clear. But those who are undecided might consider Zimbabwe for their next vacation.

Photo: AP Images