

# NATIONAL REVIEW

## Dollarized Victoria Falls Rises above Zimbabwe's Economic Mess

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Zimbabwe's economy has gone through the wringer. In just 20 short years, it has witnessed two episodes of hyperinflation. And, if that wasn't bad enough, Zimbabwe's real GDP per capita has plunged by 21 percent over that same period.

When you visit Zimbabwe's Victoria Falls on the Zambezi River, you will find that it is still one of the Wonders of the World in the traditional geomorphological sense. But, you will quickly discover that it is also an economic Wonder of the World. Indeed, when you enter the town of Victoria Falls, it's as if you have walked into an alternative African economic universe. Victoria Falls is an island of stability in Zimbabwe, a country that has descended into monetary and fiscal chaos. How could this be?

Since its independence in 1980, Zimbabwe has struggled — but its economic decline began to seriously accelerate in 2000 with the introduction of the Fast-Track Land Reform Program. With that, vast tracks of productive farmland were seized from white farmers by the government. Land confiscations had been occurring since independence, but they had been accompanied with modest compensation. Under the Fast-Track program, however, the farms were taken without any recompense. Even though Zimbabwe's supreme court declared the program unconstitutional, President Robert Mugabe ignored the ruling. This flagrant abuse of property rights and the rule of law ruined the agricultural sector and sent the economy into a deep dive. Tens of thousands of jobs were lost in agriculture and auxiliary industries. And, since agricultural exports provided the lion's share of hard currency for the government's coffers, its finances were sent into a tailspin.

From 2000 to 2008, real GDP per capita contracted on average by 8.3 percent per year, and Zimbabwe ran huge fiscal deficits. These were financed by running the printing presses at high speed. And, as night follows day, Zimbabwe experienced hyperinflation — the second most severe case in history. Bags full of bills were necessary to purchase a dozen eggs. Prices doubled every day, making Zimbabwe's 100 trillion dollar notes worthless. Then, on November 14, 2008, the annual inflation rate peaked at 89.7 sextillion percent — at which point Zimbabweans finally threw in the towel and simply stopped using the Zimbabwe dollar. With that, Zimbabwe became spontaneously and unofficially dollarized, and the hyperinflation came to a halt.

Then, in February 2009, a unity government was formed. Cabinet positions were filled by members from Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) party

and the opposition leader Morgan Tsvangirai's Movement for Democratic Change (MDC-T) party. In one of its first acts, the unity government scrapped the Zimbabwe dollar and officially dollarized the country. In so doing, the printing presses were shut down; the U.S. dollar became legal tender, taxes were required to be paid in dollars, and government accounts were kept in dollars. With the imposition of a hard budget constraint, the fiscal deficit disappeared, and the economy boomed. That rebound persisted during the term of the national unity government, which lasted until July 2013. Indeed, during this period, real GDP per capita surged at an average annual rate of 11.2 percent.

Zimbabwe's period of stability was short lived, however. With the collapse of the unity government and the return of Mugabe's ZANU-PF party, government spending and fiscal deficits surged, resulting in economic instability. To finance its deficits, the government created a "New Zim dollar," and Zimbabwe de-dollarized. The New Zim dollar was issued at par with the U.S. dollar, but quickly traded at a significant discount to it. The money supply exploded, as did inflation. On September 14, 2017, Zimbabwe entered its second bout of hyperinflation in less than ten years.

Since de-dollarization, monetary chaos has reigned. But, this hasn't stopped the Mnangagwa government (Emmerson Mnangagwa, a member of ZANU-PF, has been president since 2017) from blaming Zimbabwe's current chaos and impoverishment on dollarization.

During a visit to Zimbabwe two years ago, a local Harare (Zimbabwe's capital) businessman shared with us some of the challenges that arise when operating in this monetary chaos. His shop sold South African wine to local customers in exchange for nonconvertible New Zim dollars. To pay his South African wine wholesalers, the businessman used hard currency profits from a side consulting business he operates in England, but he complained that his profitable wine business could never grow larger than the cash flow from his consulting business. "My wine business has become more of a hobby than a business," he admitted. Another businessman owned a crocodile farm and sold his skins to boutique Italian handbag and shoe manufacturers. When asked where he kept his U.S. dollars from export sales, he smiled and said, "Under the mattress with my gun on the bedside table." Stories such as these can be heard throughout Zimbabwe. Indeed, almost all businessmen are required to spend a great deal of time deriving ingenious schemes to avoid the use of Zimbabwe's junk currency.

Then there is Victoria Falls, an enclave that has long operated under very different monetary rules. As a key tourist destination in Southern Africa, it attracts hundreds of thousands of visitors annually to view the thunderous volume of water passing into the Zambezi's 300-ft deep gorge — a true Wonder of the World.

Traveling from any other place in Zimbabwe to Victoria Falls is like stepping through a portal that aligns much more with an experience of visiting, say, Yosemite Valley in the United States. Hotels, lodges, and restaurants abound, offering everything from down-home cooking to elegant five-course meals. Safari companies offer a wide variety of first-class venues. U.S. and other international credit cards are gladly accepted, a rarity in other parts of Zimbabwe. And, the glue that holds Victoria Falls together is the U.S. dollar. It's the coin of the realm in Victoria Falls.

Yes, Victoria Falls is officially dollarized. It only accepts U.S. dollars for payment of property taxes and keeps its books in U.S. dollars as well.

There even are plans to open a new stock market in the city: The Victoria Falls Stock Exchange (VFEX). The VFEX will trade securities listed in U.S. dollars and other convertible currencies. Once established, the new “dollarized” market would challenge the National Zimbabwean Stock Exchange (ZSE) in Harare, which has few trades and little investor trust because the stocks are traded in Zimbabwe’s junk currency.

So, for us, Victoria Falls qualifies as a Wonder of the World in more than one sphere. It’s not just the great falls on the Zambezi that make it so wondrous, but the dollarized world of the city, too.

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