ZIMBABWE INDEPENDENT
THE LEADING BUSINESS WEEKLY

Zim remains in economic ditch

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November 17, 2018

In 1944, my good friend, the late Nobelist Friedrich Hayek (1899-1992), published Road to Serfdom. It immediately became an international sensation.

In it, Hayek argued that government interventions into markets, whether they be via regulatory mandates or the outright taking of private property, will lead to an initial failure. In short, they will be counterproductive.

In an attempt to correct its initial errors, the government then does more of the same, only in greater detail. Further disappointments will lead to still more far-reaching and detailed interventionist measures, until socialism and a state of total tyranny are reached.

Such is Hayek's Road to Serfdom, a road that Zimbabwe has taken. The pilot who took this road was Robert Mugabe. He was aided by the political party he controlled, the Zimbabwe African National Union-Patriotic Front (Zanu PF), and henchmen, like Zimbabwe's current President Emmerson Mnangagwa and current Vice-President Constantino Chiwenga. Mugabe and his accomplices sped along with many Marxist ideas dancing in their head.

During Mugabe's reign, all economic activity was dependent on political decisions, which enhanced the prizes of political power and the stakes in the fight for it. State-owned enterprises, capital controls, price controls, import controls, one-time mining fees, and a plethora of regulations wrapped Zimbabwe in a giant ball of socialist red tape and destroyed the economy.

Measured by real gross domestic product per capita, living standards are now only 78% of what they were when Mugabe assumed power in 1980. When one looks at agriculture, for instance, the erosion is clear. Zimbabwe used to export maize; now it is an importer. Since the land reforms of 2000, the value of farm production has shrunk by 45%.

The fiscal picture is not a pretty one, either. Budget officials took to heart the sentiment behind Mugabe's rhetorical question in 1997, "Have you ever heard of a country that collapsed because of borrowing?" Zimbabwe's annual budget deficits averaged 5,4% of GDP during Mugabe's tenure. The result is a mountain of bad debts and arrears. And if that's not bad enough, the International Monetary Fund's most recent edition of the World Economic Outlook indicates that Zimbabwe is one of the poorest countries in the world.

Zimbabwe's collapse shows up in every international rating of the economy. In the World Bank's Doing Business 2018 index, Zimbabwe ranks 159 out of 190; in the Cato Institute's

Economic Freedom of the World listing for 2018, Zimbabwe is 127 out of 162; in the World Economic Forum's Global Competitiveness Report 2018, Zimbabwe ranks 128 out of 140; in the Heritage Foundation's Index of Economic Freedom 2018, Zimbabwe is 174 out of 180; in the Cato Institute's Human Freedom Index 2017, Zimbabwe ranks 146 out of 159; and in the Bertelsmann Stiftung's Transformation Index (BTI) 2018, Zimbabwe ranks 113 out of 129 countries.

Zimbabwe's road to serfdom has been punctuated by several notable events and episodes. One of these was the Fast-Track Land Reform Programme of 2000, under which land was seized from white farmers. This confiscation of land had been happening since 1980, but under the 2000 programme, the farms were taken without compensation. Zimbabwe's Supreme Court declared the programme unconstitutional, but Mugabe's government ignored that ruling.

This flagrant abuse of property rights and the rule of law sent the economy into a deep dive. From 2000 to 2008, real GDP per capita contracted on average by 8,29% per year. During this period, Zimbabwe ran large fiscal deficits financed by printing money. In consequence, it experienced the second most severe case of hyperinflation in history, one which I was able to accurately measure.

On November 14 2008, the annual inflation rate peaked at 89,7 sextillion percent. Prices doubled every day, making Zimbabwe's 100 trillion dollar notes worthless. In the end, the government was forced to scrap the Zimbabwe dollar, because Zimbabweans simply refused to use it.

Mugabe's government then instituted a system in which the US dollar became the coin of the realm. Government accounts became denominated in US dollars in 2009. As a result of dollarisation and the installation of a national unity government, which lasted from 2009 to July 2013, the economy rebounded.

During this period, real GDP per capita surged at an average annual rate of 11,2%. The minister of finance, Tendai Biti, who was a member of the opposition, understood that under a dollarised regime, the country would no longer be able to print money to finance deficits. Consequently, budget deficits were almost eliminated.

With the collapse of the unity government and the return of Mugabe's Zanu PF party, old habits resurfaced. Fiscal deficits ballooned — something that should not happen under "dollarisation rules". But, rules meant nothing to Mugabe.

To finance its ballooning deficits, the government began to issue an enormous number of new "Zim dollars" in 2016. As night follows day, Zimbabwe experienced another bout of hyperinflation in 2017. This second episode had Zimbabweans up in arms. This hyperinflation opened the door for Mugabe's ouster. After 33 years of taking Zimbabwe down the road to serfdom, Mugabe was out.

But, after an election earlier this year, who was in? Mugabe's old allies; the ones who assisted him in driving Zimbabwe into an economic ditch and instituting a reign of terror.

So, what should the Mnangagwa government do to put Zimbabwe on a road to recovery and liberty? Zimbabwe should adopt the strategy of Lee Kuan Yew, Singapore's first prime minister. That strategy was based on four principles: stable money, no foreign aid, first-world competitiveness, and the protection of private property and the public's safety.

Lee's near perfect execution of the strategy was a result of the fact that he surrounded himself with first-class civil servants and paid them first-world wages. As a result, Singapore escaped the grinding poverty it faced in 1965 to become one of the world's most affluent countries.

So far, the Mnangagwa government has not expressed interest in adopting any of the elements of the Singapore strategy. Nor have members of his government displayed the kind of competence required to tow the economy out of the abyss. Zimbabwe remains in an economic ditch and the storm clouds are gathering.

Hanke is a professor of applied economics at The Johns Hopkins University and senior fellow at the Cato Institute. Over four decades Hanke has advised dozens of world leaders from Ronald Reagan to Indonesia's Suharto on currency reforms, infrastructure development, privatisation, and how to tame hyperinflation. He also trades currencies and commodities and was the president of the world's best performing mutual fund in 1995 (+79,25%). He wrote a regular column in Forbes Magazine from 1993 to 2010. He and his wife reside in Baltimore and Paris. — Twitter: @steve_hanke.