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How Mugabe destroyed Zimbabwe

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What do Slobodan Milosevic, Robert Mugabe, and Nicolás Maduro have in common? Other than being leaders who kept the Communist Manifesto at their bedside, all three ushered in devastating hyperinflations.

Hyperinflations are rare. They have only occurred when the supply of money has been governed by discretionary paper money standards. No hyperinflation has ever been recorded when money has been commodity-based or when paper money has been convertible into a commodity.

The first hyperinflation occurred during the French Revolution (1789-96) when the mandat collapsed and the monthly inflation rate peaked at 143% in December of 1795. More than a century elapsed before another episode of hyperinflation occurred. Not coincidentally, this period of currency tranquility occurred during the heyday of the gold standard. With the emergence and adoption of fiat currencies, the 20th century ushered in currency instability and inflation. Indeed, since 1900 there have been 57 episodes of hyperinflation. And, five of those episodes can be claimed by Yugoslavia, Zimbabwe, and Venezuela.

Fast forward to March of 2007, when Robert Mugabe was in his 19th year as president of Zimbabwe. The African country was experiencing an episode of hyperinflation that was destroying the economy, pushing more of its inhabitants into poverty, and forcing millions of Zimbabweans to emigrate. In the 1997-2007 period, living standards (as measured by real gross domestic product [GDP] per capita) fell by a stunning 38%. The episode, which peaked at an annual inflation rate of 89.7 sextillion percent—that is 89.7 followed by 20 zeros—in November of 2008, had robbed people of their savings and financial institutions of their capital through real (inflation-adjusted) interest rates that were actually negative. This form of theft occurred, in large part, due to laws and regulations governing financial institutions (pensions funds, insurance companies, building societies, and banks) that forced them to either purchase government treasury bills that yielded only a small fraction of the current inflation rate or make deposits at the Reserve Bank of Zimbabwe (RBZ) that paid no interest.

So, what was the cause of this economic meltdown? The blame lay at the doorstep of the Zimbabwean government, whose policies forced the RBZ to print money. From January 2005 to May 2007, the RBZ issued currency at a rate that exceeded that of Germany's central bank from January 1921 to May 1923, the ramp-up phase of the great German hyperinflation.

During this period, the RBZ more than doubled its staff, from 618 to 1,360 employees. Despite this 120% increase in staff, the RBZ staff was incapable of producing accurate and timely data—even the most standard economic and financial statistics arrived months late, if at all.

With the help of Alex Kwok and my research assistants at the Johns Hopkins-Cato Institute Trouble Currencies Project, I was able to fill the gap left by the RBZ and accurately measure Zimbabwe's first hyperinflation episode. By my measurement, the monthly inflation rate peaked at 79.6 billion percent in November of 2008, taking over the rank of second and pushing the Yugoslavia episode to the third most severe episode of hyperinflation. Despite this astronomical figure, Mugabe was able to remain in office for another 9 years. This was due, in part, to the fact that, in early 2009, Zimbabwe dumped the Zimbabwe dollar and officially dollarized.

But, Mugabe never learned the lessons of 2008. When his party, ZANU-PF, regained full control of Zimbabwe in 2013, government spending and public debt surged. To finance its ballooning deficits, the government abandoned full dollarization and started to issue its own currency in enormous amounts. The "New Zim dollar" was issued at par to the U.S. dollar but traded at a significant discount. The money supply, as a result of the New Zim dollar issuance, exploded, and so did inflation.

As night follows day, Zimbabwe experienced its second episode of hyperinflation in less than ten years, starting in September of 2017 and peaking at a monthly inflation rate of 185%. Mugabe had been in the saddle just shy of 30 years, but this was the straw that broke the camel's back. Zimbabwe's second episode of hyperinflation opened the door to Mugabe's ouster in a November 2017 coup d'etat by the Zimbabwe Defense Forces.

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