When Money Destroys Nations

How Hyperinflation Ruined Zimbabwe, How Ordinary People Survived, and Warnings for Nations that Print Money

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Summary by Edward McIlveen, CFA

Philip Haslam and Russell Lamberti's 2015 volume details the dramatic hyperinflation that ravaged the Sub-Saharan African nation of Zimbabwe. Throughout their dissertation, the authors detail how the Zimbabwean government's mismanagement and corruption contributed to its economic capitulation in 2009.

Using traditional academic techniques, interviews from those that lived in Zimbabwe, and questions to stir the reader into a contemplative mindset, the authors create a virtual classroom experience by deploying the Socratic Method.[4] The aim of the material is not to merely think about the problems of Zimbabwe as being an isolated incident, but one that offers lessons warning of the destructive dangers associated with unscrupulous policy.

Several chapters contain a section titled "Think about It" with questions effectively moving the average reader's mentality from complacency to consummate paranoia. For example, Chapter 2 ("Storm Warnings") ends with the reader posed with the following: "If your government wanted to take your land and assets, what would you do?" Following Chapter 7 ("The Economics of Hunger") the authors ask: "Would you be able to kill an animal for food?" Chapter 8 ("Government Shutdown") raises this: "Do you have alternative options for water supply?" These questions are hypothetical for many. But the citizens of Zimbabwe – who never imagined their predicament in the first place – had to find solutions in order to preserve their savings and to obtain daily provisions via unconventional routes.

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Everyday life turned away from working and enjoying the fruits of labor to a frenetic plight for subsistence. Citizens faced shortages of all kinds and were forced into subverting an ever more onerous and oppressive set of governmental rules. The CEO of a manufacturing company stated that:

> *"Hyperinflation made everyone a criminal because you had to break the law to survive. We are a nation of law-breakers, forced on us by hyperinflation."*

The normal economic activity pursued to produce value added goods all but stopped with its participants switching over to obsessive hoarding, trading and speculating. The economy was producing less, and it was a scramble to get what one could.

At its culmination in 2008, the inflation rate in Zimbabwe ran at an annualized 89.7 sextillion percent. This is incomprehensible for us to grasp by numbers alone, so much so that the authors' shrewd staging to intertwine abstracts from those that endured the chaos tell the tale far better than merely looking at charts.

A Zimbabwean economic commentator also recognized how studying these mind-boggling numbers failed to convey the overarching power of inflation on the populace:

> *"Few people can understand hyperinflation without living through it. It isn't a dry topic to be studied by academics. It affected everyone. Even the taxi drivers in Zimbabwe could tell you about the details of hyperinflation."*

Research Review Continued

When the printing presses couldn't keep pace with the demand, the Reserve Bank of Zimbabwe (RBZ) just started adding zeros into the denominations. In quick fashion, the zeros grew unwieldy for merchants and customers in their commercial endeavors. The RBZ soon realized that all of the zeros were indeed a problem, and therefore started removing them in concert with putting expiration dates on newly issued currency. This made matters worse as the old notes without any expiration were still in circulation.

Despite the government mandate to utilize the increasingly debased fiat currency, the masses turned to unusual ways of conducting commerce that included an emphasis on real assets. Food, fuel, and foreign exchange formed the basis of the underground economy that helped locals procure tangible needs. Long-lasting canned food and raw agricultural commodities held their value. "Food boxes" emerged as a suitable wage for workers instead of paper money. Unofficially, petroleum coupons, U.S. dollars, toilet paper, cleaning equipment, whiskey, and pre-paid cell phone cards all replaced the currency printed by the central bank.

Similar to the hyperinflation collapse in Weimar Germany in the 1920s,[5] Zimbabwe underwent a decline of social values simultaneous to the near vertical increases in prices.[6] Though societal values shifted in ways that were detrimental (i.e. theft, bribery), several communities fashioned bartering networks to take care of each other. In some cases, as the problems grew in magnitude, the sense of resolve within the community to overcome it all rose as well. In fact, the authors included a chapter dedicated to the emergence of this phenomenon, "Strength in Community." Millions left Zimbabwe but for those that couldn't leave or chose to stay, it was noted that survival came down to the relationships contained in the community.

In wrapping-up, the authors contend there are a handful of lessons to be learned from those that have experienced the plague of inflation. For one, take heed that hyperinflation could materialize anywhere given the right mix of corrupt politicians and unfavorable global financial conditions. Keeping a healthy amount of suspicion over government actions is warranted, and even more so when the printing presses are fired-up to remedy a crisis. Second, prepping for worst-case scenarios should include being alert as to where your savings and property are invested and how protected they are from confiscation. And third, take the time now to cultivate relationships in your community as it would quickly emerge as your refuge in the event of a national emergency.

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Summary

- *The Sub-Saharan African nation of Zimbabwe was ravaged by hyperinflation, which at its culmination in 2008 ran at an annualized rate of 89.7 sextillion percent. The plight of the millions impacted is retold in various ways here, often through quotes by everyday citizens that lived through the bedlam.*

- *Hyperinflation demolished confidence in the country's fiat currency where citizens eventually discarded it in favor of food, fuel, and foreign exchange to procure daily necessities.*

- *The lessons learned that the authors hold out include first recognizing that hyperinflation could materialize anywhere. Second, take measures to safeguard assets that could be subjected to confiscation and third, cultivate relationships in your community as it will quickly emerge as your refuge during a hyperinflationary episode*

[4] The Socratic Method is a tool to engage a large group of students in a discussion, while using probing questions to get at the heart of any subject matter.

[5] See the Research Review of "When Money Dies" *within the Investor's Outlook published by Francis Investment Counsel in January 2021.*

[6] Ironically, the German and Zimbabwean inflation stories shared another commonality as both central banks engaged the same German minting company, Giesecke & Devrient, to source the higher grade paper needed for printing money galore.