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Hyperinflation in Zimbabwe: examining the coping strategies of households and firms as reported by the media



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Abstract

From 2005 to 2008, Zimbabwe has been experiencing severe hyperinflation. The economics literature suggests that households and firms need to adapt rapidly to economic changes, but this type of adaptation proves to be very difficult. We look at how households and firms attempt to cope in this time. In particular, we focus on the media's reports through national newspapers, *The Herald*, *Sunday Herald*, and the *Financial Gazette*. This study focuses on themes demonstrated in the month of December in the year of 2007. Content analysis reveals a high propensity to pursue illegal exit solutions among citizens, a failure for sectors to catch up, and growing distrust among institutions. By aiming to reduce states of uncertainty, or through the mechanism of loss aversion, people are inclined to pursue exit solutions. Inadequacy of sectors to keep up generates distrust. Lower trust societies have higher crime, in Zimbabwe's case, illegal exit solutions.

Methods and Materials

The data was collected through analyzing the content from three Newspapers : The Herald, The Sunday Herald and The Financial Gazette. Using an Excel Spreadsheet template, several points of interest were coded for. 50 articles were analyzed running throughout the month of December. The keywords were analyzed for pertinent themes that were used to describe life under hyperinflation. Themes were then coded for each article: breakdown of social trust, pursuit of exit solutions and failing to keep up. The number of articles mentioning each theme were then summed. The themes most "important" based on this methodology are the ones that have the highest sum.

Chart 1. Coding Template.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Newspaper:	Newspaper	Section: 1-News, 2-Sunday Herald, 3-Business Herald, 4-Editorial pages	Date	Article Title	Author	ent	1=none	2=unclear	3=property	4=Diapora	5=return on accruing v months	6=cemetery drinks	7=mourners profit	8=taboo
1	Gazette	4-Editorial pages	yy/dd/mm	Title	Author	ent	1=none	2=unclear	3=property	4=Diapora	5=return on accruing v months	6=cemetery drinks	7=mourners profit	8=taboo
2	2	3	2007/9-15/	Property + Augustine Moy		1	4		5					
3	2	2	2007/9-15/	Mourners Grace Shamhu		1	1		1					
4	2	1	2007/2-8/11	It all happ Grace Shamhu		1	4		1					

Figure 5. Mechanism behind pertinent themes.



Theory

The mechanism between the three themes can yield many interpretations. Here, a hypothesis is made based on past literature and findings on the mechanisms. Initially there may be an underlying factor of rampant uncertainty in terms of income, security, source of food that can lead Zimbabweans towards exit solutions. Uncertainty as described by psychologists, as a lack of information about an event and has been characterized as an aversive state that people are motivated to reduce. Studies demonstrate psychological inclination to reduce uncertainty, in Zimbabwe, it can lead individuals to consider exit solutions.

Loss aversion can create a link between failures in institutions leading to higher pursuit of exit solutions. Thaler and Johnson (1990) demonstrate that subjects who experience a loss subsequently become more loss averse, refusing to take gambles that, in the absence of prior loss, they would take. 46% of the articles describing failures in banking, corporate and governmental sectors and services, can demonstrate a possible mechanism by which constant failures induce loss aversion in citizens. This pushes them towards trying to both reduce uncertainty and prevent future losses, which exit solutions can offer.

Another mechanism starts with the failure of industries to catch up generating social distrust leading to unethical means of exiting the economy. La Porta et al. (1997) demonstrated through surveys that trust is associated with higher ratings on subjective measures of governmental efficiency, corruption and confidence in institutions. The 2007 Pew Global Attitudes highlighted that in societies of high trust, there is lower crime. Knack(2000) states that social institutions and governments facilitate and are a source of trust between parties. But when these institutions demonstrate inadequacies in management and coping mechanisms, this may break down in trust. Lower-trust societies are associated with higher crime.

Life under hyperinflation analyzed through a psychological lens can describe crime through a major school of thought in forensic psychology. Crime and anti-social behaviour are the result of people's circumstances. Jeremy Bentham(1907) described that people commit crime as a logical calculation of a cost-benefit analysis. Essentially, he said that people make rational decisions based on their circumstances, including crime. Psychology can demonstrate the vulnerability anyone can be under, given the circumstances of hyperinflation bringing themes and behaviours into fruition.

Figure 1. Graph of Period of Inflation.

Zimbabwe Consumer Price Inflation Soars Amid Hyperinflationary Period

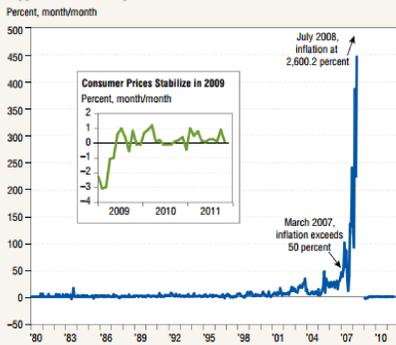


Figure 2. Bank Denomination.



Figure 3. Cartoon of Obama and Mugabe.

Results

Table 1. Themes demonstrated in articles.

Theme	Breaking of Trust	Pursuit Towards Exit Solutions	Failing to Catch Up
Value	32%	60% (73% of which are illegal)	46%

With n=50, exit solutions were highest including illegal methods (cash barons, money laundering, switching to foreign currency). The inability to catch up as shown through the articles in a variety of ways such as, financial deficits, inability for companies to meet demands, failure at alleviating cash shortages etc. Thirdly, we witness a breakdown in social trust. Breaking down of social trust was coded for whenever a lack of confidence, trust, diminished belief and reliability was mentioned in the articles. 90% of articles effected at least two of the institutions. Though break of trust is the least coded for, a lack of trust is necessary to go after exit solutions that are not offered by Zimbabwe's social or economic policies. It was common to see several themes coded for in one article. Of all of the exit solutions 73% (22 of 30) of articles discussed illegal forms of exit solutions often in the form of switching to foreign currency, selling on the black market, cash barons and hoarding of money.

Expenses per month

Bread	\$1,800,000
1-6 Tuition	\$83,000
Rent	\$700,000
Electricity	\$100,000
Sugar	\$150,000



Figure 4: Supermarket shelves emptied by price controls

Table 2. Citizen Estimates on expenses as of July 2007 in Zim. Dollars.

Introduction

Zimbabwe experienced one of the most extreme cases of hyperinflation in history, crippling the economy and the livelihoods of many citizens. Hyperinflation often occurs when a large increase in the money supply is not supported by gross domestic product growth, this results in an imbalance between the supply and the demand for money. As it endures it causes prices to increase and the currency to lose its value. Often this worsens with the government issuing its own currency, printing more money without the producing enough goods. Some explanations for Zimbabwe's predicament include President Robert Mugabe redistribution of land to untrained farmers, inability for farmers to pay loans back to banks and USA, EU and IMF imposing sanctions upon Zimbabwe for this distribution hurting investments and employment opportunities. Life of many Zimbabweans under hyperinflation has shown to be incredibly difficult. Long queues at the bank to withdraw money in huge amounts became a daily routine which lead to the hoarding of money. With less production and failing sectors of the economy, resources and grocery store shelves became empty. Citizens spent what they could immediately before the value of their money dropped the next day. Economists took great interest in understanding consumer behaviour. But this study proposes using the lens of psychology to understand the choices towards certain coping behaviour made by citizens. This study analyzes data from newspapers and finds themes in the daily lives of Zimbabweans with respect to the effects of hyperinflation covered by the media's perspective. Psychological variables contribute to the understanding of economic decisions and processes, giving insight of great value to economists.

Conclusions

Zimbabwe's economic circumstance yields many effects in the lives of the citizens. Newspapers highlighted the frequency of exit solutions, the growing inability to trust and reports of inadequacies of many sectors of the economy to keep up. Psychology can determine societal effects under economic circumstances, which give great insight to economists. Research can consider the effects of low income residents and prosocial behavior to further demonstrate mechanisms leading to unethical exit solutions. The study should be extended over another two years to consider the changing themes hyperinflation gets worse.

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