

'Survival 101: How Zimbabweans survived hyperinflation'

Introduction

In order for a society to function effectively, people must be able to plan for the future: citizens need to plan in order to pay their bills and ensure that their children acquire an education; businesses need to plan in order to maximize their profit; the government needs to plan in order to lead effectively. Most countries enjoy a low and fairly stable rate of yearly inflation that facilitates this medium- and long-term planning. However, the hyperinflation that Zimbabwe experienced from 2006-2009 prevented this; the value of money fluctuated drastically. At the peak, prices increased at 230 million per cent per year. The focus of this research project is to provide an account of the adaptation strategies employed by Zimbabwean individuals, firms, and the government, that allowed them to cope with the ever-changing levels of hyperinflation. I look at how hyperinflation affected the three functions of money (i.e. a medium of exchange, a store of value and a unit of account) and, ultimately, the use of money itself. This research was conducted through a content analysis of *The Herald* and *The Sunday Mail*, Zimbabwean government-owned newspapers from June 2006, June 2007 and June 2008, the peak of the hyperinflation experienced in Zimbabwe. By analyzing the articles in June each year, seasonality is accounted for. It is expected that the Zimbabwean society was able to cope with hyperinflation by abandoning the traditional functions of money and resorting to methods like bartering.

Methodology

Articles in *The Herald* and *The Sunday Mail* related to inflation provided the source of data. Before the research commenced, original newspaper articles from government-owned newspapers, such as *The Herald* and *The Sunday Mail*, were already pre-gathered and pre-organized. This research project focused on content analysis of the articles. Articles were coded for keywords, and the three functions of money. The research project focused on coding all the articles published in June 2006, June 2007, and June 2008, each representing different levels of hyperinflation (roughly 1,000%, 24,000% and over 100,000,000% per annum respectively).

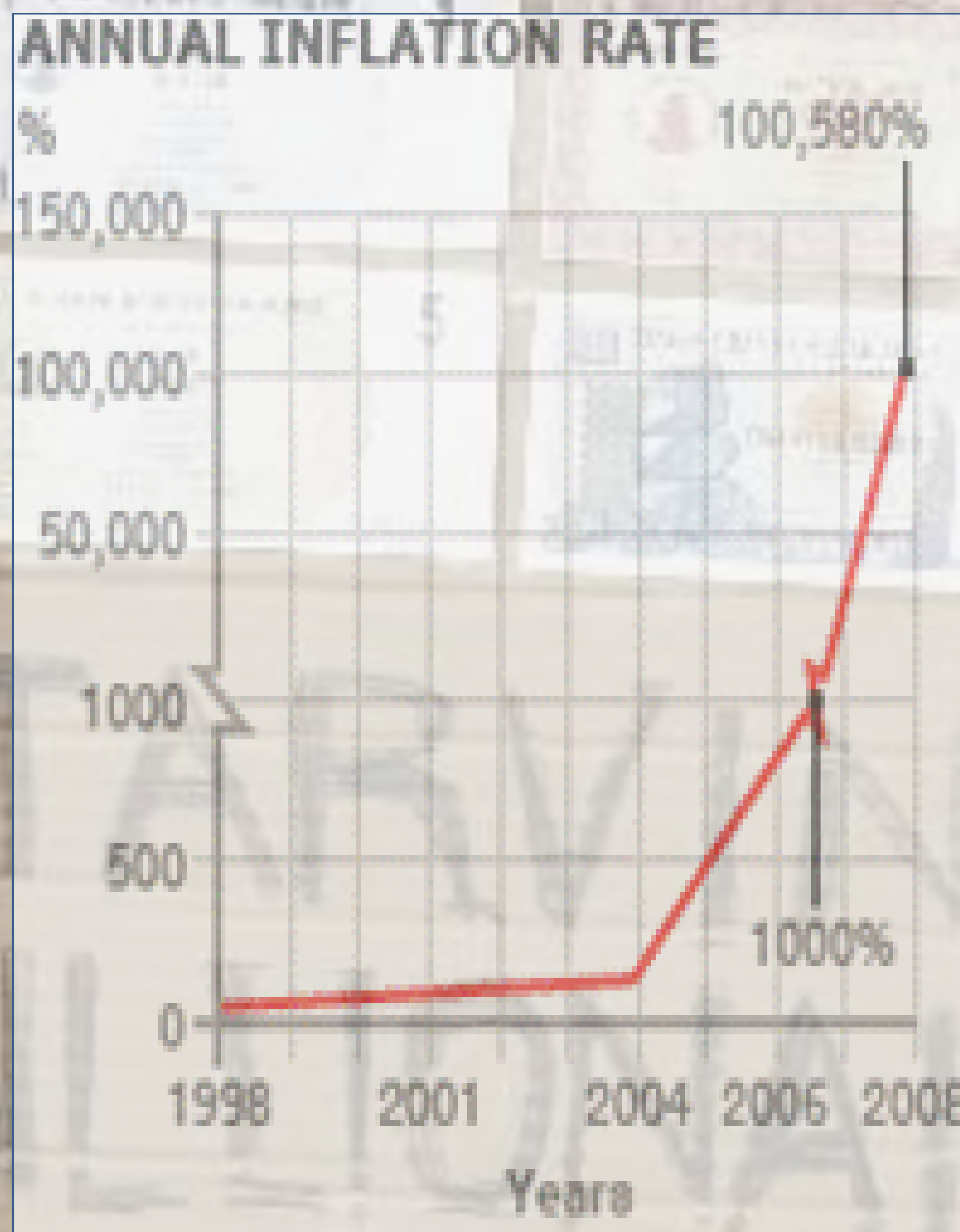
Results

JUNE 2006- INFLATION, 1096% PER ANNUM

"Last month, I came here at around five o'clock in the morning and I was number 83. Today I came at around the same time and I am number 220. The services are just pathetic," said Ms. Esthere Musarapasi as she suckled her baby. Only one cashier was serving people. – *The Herald, Tsungiriral Shoriwa, June 5, 2006.*

Issues about utilities frequented the newspaper headlines in June 2006. Articles discussed themes, such as electricity, power shortages and load-shedding. Since seventy percent of the electrical utility's imports were foreign-currency-related, the depreciation of the Zimbabwean dollar against foreign currency became a huge problem as proper plant, transmission and distribution equipment maintenance became impossible (Kaseke). Evidently, this resulted in power shortages because Zimbabwe Electricity Supply Authority (ZESA) could no longer supply electricity to meet demand. Thus, ZESA adopted the strategy of load-shedding by deliberately shutting down some parts of its power-distribution system to prevent a power shortage of the whole electric system. Another theme associated with utilities was the poor service delivery that the public faced when they had to pay their utility bills. Several articles captured the frustrations and disbelief that individuals faced as they stood in line to pay their bills for several hours or even days.

Other themes that were often discussed in June 2006 were the overpricing of bus fare of public transportation and bread as bus drivers and bakers tried to cope with the hyperinflation. Bus drivers and bakers argued that the increasing price of inputs, such as fuel, forced them to raise prices. Regardless of their justification, if caught, bakers were arrested for their actions. Regardless of their justification, if caught, bakers were arrested for their actions. In fact, by June 23rd, 282 bakers were arrested for charging more than \$85,000 for a standard loaf of bread (Mpopu).



Results

JUNE 2008 – INFLATION, 200 MILLION PER ANNUM

"Houses in high-density areas are now selling for between \$1-\$3 quadrillion." – *The Herald, Business Reporters, June 25, 2008*

Hyperinflation had reached its climax in Zimbabwe by 2008. Themes like increased prices, overpricing, portability of money, bartering, the use of foreign currency for every day transactions, black market and cash withdrawal limits continued to be faced by the Zimbabwean society, but at an even greater magnitude.

One of the strategies that one began to see in 2008 was the removal of zeros from balances. The prices of goods and services were commonly billions and trillions of dollars and even reached a quadrillion. The value of each dollar became so insignificant the government officially knocked off three zeros to make money easier to handle. Informally, businesses also knocked off three zeros off the value of goods and services so that they could process transactions in their cash registers and computer spreadsheets. This is directly related to other themes like the portability of money, increased prices, and the function of money as a unit of account. In June 2006 and 2007, the main function of money that was altered was money as a medium of exchange. It was only in June 2008 that the other functions of money were discussed more often. In response to the price controls that the government imposed in 2007, many articles called for the liberalization of the market. Journalists and economists argued that the price controls worsened the situation in Zimbabwe as many participated in the black market instead of stimulating economic activity in the official market.

The topic of salaries was very present in the June 2008 articles as individuals pressed for higher wages and to be paid more frequently. This is due to the fact that receiving one's salary biweekly or monthly became a problem because the value of money fluctuated every hour.

Conclusion

"It is hard to imagine how Zimbabweans are surviving." – *The Sunday Mail, Darlington Musarurwa, June 8, 2008*

It is clear that as the hyperinflation environment worsened in Zimbabwe from June 2006 to June 2008, Zimbabwean society used different strategies to survive. Depending on one's role in society – individuals, firms and the government – one's strategy differed.

The government employed policies like price control to mitigate the negative impacts of hyperinflation. However, these price controls hindered the profitability of business that thereby participated in black market activities, such as overpricing, hoarding and the use of foreign currency. Businesses were not the only ones that engaged in black market activities, such as individuals did too. To cope with the shortages and the devaluing Zimbabwe dollar, individuals participated in the black market by purchasing goods and services from these businesses. In June 2006 and June 2007, money as a medium of exchange was mainly discussed in articles. However, as the situation worsened, money as a unit of account and money as a store of value were discussed more often.

References

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RESULTS

JUNE 2007 – INFLATION, 24411% PER ANNUM

"To put things into perspective, last week I wrote about the new price increases but little did I know that by the time I finished writing the article the same prices had increased further" – *The Herald, Victoria Ruzvidzo, June 28, 2007.*

Naturally, in a hyperinflation environment, prices rise at exorbitant rates as captured by the writings of Ruzvidzo. Due to these ever-increasing prices, themes like portability of money, cash withdrawal limits, foreign currency, and price controls emerged in Zimbabwe in June 2007. The increasing prices in Zimbabwe and the decreasing value of the Zimbabwe dollar meant that it took millions, billions, and even trillions of dollars to purchase everyday goods. Due to the large amount of money that the average citizen needed to purchase their goods, the banks imposed a cash withdrawal limit in order to prevent a few people from withdrawing all the money via the automatic banking machines that had to service the whole community.

As prices continued to increase on a weekly basis, many Zimbabweans could no longer rely on their national currency as a medium of exchange. Instead several individuals and firms preferred to use foreign currency, often obtained through the black market. Through the Consumer Council of Zimbabwe, the government tried to discourage black market practices by introducing price controls; businesses said that the fixed prices did not cover the cost of making the goods and so they would have to sell at a loss. Because the official prices did not allow business to make a profit, they responded by charging customers more than the controlled price and/or by ceasing production and hoarding inputs, hoping that the official price would be allowed to rise. Thirty percent of the articles discussed the corruption and greediness of businesses that were trying to make a profit in a time when millions were suffering.