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ON MONEY

What 52,000 Percent Inflation Can Do to a Country

By Brook Larmer

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I walked into the empty restaurant in Managua carrying a backpack stuffed with cash, thick stacks of Nicaraguan córdobas bound by rubber bands. The waiter, as expected, asked me to hand over the entire stash. It may have looked like an illicit transaction. But this was Nicaragua, in 1990, at the end of its war with the American-trained contra rebels, and I was only trying to buy a meal before my money lost its value. A decade of guerrilla war and deficit spending had whipped up a maelstrom of hyperinflation and shortages. Only two items on the menu were available, and prices had doubled in a matter of weeks. With inflation surging past 13,000 percent annually, the restaurant now demanded payment upfront — to ensure that the staff had enough time to tally it. As I ate my rice and beans, two waiters at another table counted every bill. I finished before they did, even though the meal — and all those millions of córdobas — added up to less than $10.

Hyperinflation is a mercurial phenomenon, a rupture that occurs when a government persistently spends (or prints) money that it doesn't have, and the public loses confidence in the process. The distortions that emerge — like the backpack full of soon-to-be-worthless cash — can seem absurd, even laughable. Yet there is nothing amusing about the damage that hyperinflation can inflict on the lives of people and nations. "If you can't trust the money the government issues, then you can't trust anything," says Steve Hanke, a professor of applied economics at Johns Hopkins University and a leading expert on hyperinflation (which he has defined as 50 percent monthly inflation sustained for at least 30 days). Hanke has studied the 58 cases of hyperinflation that have been recorded, from Germany's Weimar Republic to the episode I witnessed in Nicaragua, each one an earthquake that caused people to lose faith in the very foundation — the value of money — on which their lives depended.

The newest addition to the ignominious list, and a cause for alarm in Washington, is the crisis in Venezuela. Even with the world's most-abundant oil fields, Venezuela has mismanaged its way to economic disaster. Hyperinflation and its common companion, chronic shortages of food and medicine, have impoverished almost all of the country's 31 million people. Nine out of 10 Venezuelans do not earn enough money to buy sufficient food, according to a recent survey. Over all, Venezuelans have lost an average of 24 pounds each. Malaria is on the rise, as is crime. Those who can are getting out: More than 2.3 million Venezuelans have fled the country, including more than half of the nation's doctors.

The situation is still out of control. Venezuela's economy shrank by 35 percent between 2013 and 2017, and economists forecast another 18 percent drop in 2018. Oil production, crippled by the lack of maintenance and investment, fell in July to its lowest point in nearly seven decades. According to Hanke, the rate of inflation over the last 12 months was 52,000 percent. The chaos poses a risk for the entire region. "Venezuela has sparked the most serious economic, humanitarian and political crisis in the Americas in decades," says the Brazilian economist Monica de Bolle, the director of Latin American studies at the Johns Hopkins University School for Advanced International Studies. "There has never been a crisis quite like this in the region, and we've had plenty."

Nearly a century ago, Vladimir Lenin was quoted in The New York Times saying that hyperinflation was "the simplest way to exterminate the very spirit of capitalism." If a country were flooded with high face-value notes untethered to anything of real value, he reasoned, "men will cease to covet and hoard [money] so soon as they discover it will not buy anything, and the great illusion of the value and power of money, on which the capitalist state is based, will have been definitely destroyed."

Lenin's dark musings seemed almost prophetic in the jittery aftermath of World War I. Weimar Germany had gambled, badly, in financing its losing war effort with borrowed funds. Buried in debt and forced, in 1921, to pay reparations to the victorious Allies, Germany printed bank notes and ignited the most infamous bout of hyperinflation. By late 1923, prices were doubling roughly every three and a half days, and at one point a single American dollar was worth 6.7 trillion German marks. An even more severe hyperinflation followed the end of World War II, when Hungary printed notes of ever-higher value to finance its recovery. The fastest-ever recorded hyperinflation resulted: At its peak in July 1946, prices doubled every 15 hours.

Illustration by Andrew Rae

War has often played a catalytic role in hyperinflation, but it rarely acts alone. In the early 1990s, the phenomenon stalked countries in Eastern Europe (Yugoslavia, Bosnia-Herzegovina, Armenia) that were confronting wars and the fall of the Soviet Union. A decade later in Zimbabwe, despite a long slide in agricultural output, Robert Mugabe's regime printed money to pay the bloated bureaucracy and to line its own pockets. By the time Mugabe declared inflation illegal in 2007, people had lost belief in their currency. Within a year, inflation shot up to 79.6 billion percent, so high that even the government's $100 trillion bills became useless souvenirs soon after they were printed.

Hyperinflation is not, as some might assume, just inflation gone bad. It's a different beast altogether, driven by politics and psychology as much as economics. A government's decision to continue spending (or printing money) far beyond its means is political, whether done to finance war, win an election or assuage its populace. Such monetary incontinence, unchecked, leads to a spiral of food shortages, price hikes and currency devaluations. Those hit hardest are not the rich (whose wealth is in property, stocks and commodities) but the middle class, which depends on local-currency salaries, savings and pensions whose value is siphoned off by hyperinflation.

No conflict or natural calamity can be blamed for Venezuela's descent into chaos. Its leaders did this on their own. With proven oil reserves of 300 billion barrels — surpassing even Saudi Arabia's — Venezuela should be rich. But the country's early oil boom, led largely by foreign companies, yielded only spotty development. When Hugo Chávez won the presidency in 1998, he vowed to give power and wealth to the people. Buoyed by a sustained rise in oil prices, he nationalized companies and funneled oil revenues into welfare programs and food imports. Poverty and unemployment rates fell by half. When oil prices cratered in 2008, Chávez kept spending as if nothing had changed. Since his death in

2013, his successor, Nicolás Maduro, has doubled down on Chávez's policies, even as he has violently repressed the opposition. In May, Maduro claimed a re-election victory after polling marred by fraud — a result that was not recognized by most countries in the Americas.

Venezuela now finds itself isolated, like a virus contained. In 1990, three South American countries — Peru, Argentina and Brazil — were in the throes of hyperinflation. Venezuela's case doesn't look contagious, but it could still have destabilizing impacts on the region. The millions of refugees flooding into neighboring countries are already sparking a backlash. In Brazil, where army troops have been deployed to control the border, the presidential candidate Jair Bolsonaro has used the Venezuelan migrants to fuel his Trump-like anti-immigrant campaign — and warn against leftist populism.

Maduro has made only halfhearted efforts at reform. In August, he lopped five zeros off the bolívar and introduced a new currency tied to the "petro" cryptocurrency. The move has had no impact, in part because the petro isn't traded. But there has been one unexpected result: As people turn to credit cards or bank transfers for even small transactions, Venezuela has accidentally become a nearly cashless society.

Normally, a country facing insolvency would turn to the I.M.F. for a bailout. But Venezuela broke off relations with the I.M.F. in 2007 and has turned to China instead. For the past decade, China has kept Maduro's bankrupt regime afloat with more than $50 billion in loans. In September, Maduro traveled to Beijing and received several billion dollars more of credit to boost oil production and double oil exports to China. "We are taking the first steps into a new economic era," he said.

A new era isn't likely to begin as long as Maduro remains in power. He has shown no interest in taking steps that might restore economic balance, like cutting spending and tying the bolívar to a solid foreign currency. Washington murmurs about regime change. But the biggest threat to Maduro now may be a series of civil cases in American courts against Citgo. The Venezuela-owned company is the regime's biggest generator of hard currency, the only asset creditors can go after. If these cases succeed in claiming damages for being nationalized by the Chávez regime, Maduro's main lifeline could be cut off. "If the money disappears," de Bolle says, "so does his support, and the regime crumbles." Only then, it seems, will Venezuelans be able to escape a nightmare in which they can't trust the money in their hands.

Brook Larmer is a contributing writer for the magazine. Next Week: On Technology, by John Herrman

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