

Guess the Country

The following is a true story of a nation in depression. Guess which country this is.

The country is newly independent. Mainly agricultural, most of the people earn their livelihoods from subsistence farming. Most of the few manufactured necessities that they can afford are imported from abroad, resulting in a large trade deficit and a mounting burden of debt. The central government is weak and ineffectual.

Most members of the national assembly seldom turn up for the called sessions. On occasions when they do appear, their physical safety is sometimes threatened by angry mobs or mutinous troops. The government's finances are chaotic. The national assembly cannot pay the troops their promised wages.

As the depression deepens, the national assembly itself is obliged to take to the road in order to stay a step ahead of the mob. The government, facing utter bankruptcy, makes fools of its few citizens who are incautious enough to lend it money. Government bonds are so depreciated that they sell for less than fifteen percent of their par value. The implied interest rate on the national debt soars to 40 percent. But this is just an implied rate, not an actual yield, since interest payments on both domestic and foreign debt are in default. In many places, hapless creditors are in the absurd situation of having their property confiscated “for non-payment of taxes” allegedly levied “to pay interest on their securities”.

Lacking a better expedient, the authorities resort to printing paper money. In one of the few commercial centers, the value of local paper money falls by 92 percent in 30 months -- an effective inflation rate of 500 percent per annum over the 2 1/2 year period. Some local government debts are discharged at the depreciated ratio of a thousand to one. As the local paper money is discharged or discredited, an automatic deflation sets in. People prefer to conduct business in stronger foreign currencies that circulate in inadequate amounts. As a consequence, real wholesale prices tumble by more than 60 percent in just a few months.

As real wealth declines, the country suffers both economic and political instability. The government redoubles its attempts to collect taxes, even as public services go on a downward spiral. The interior of the country is so impoverished that the imposition of a head tax precipitates open rebellion. Armed bands roam the interior. As the depression bites into consumers' spending power, merchants find their stocks of unsold goods far exceed what they could plausibly hope to sell at a profit. They clamor for protectionist laws to cut off the import of foreign goods. The national government, however, is too weak to enforce any such measures. Local areas erect their own barriers to stall or to penalize the shipment of goods from anywhere — even domestic goods from neighboring jurisdictions — in an effort to keep prices high. The result is rampant smuggling in growing parallel markets.

As commercial distress multiplies, the entire financial system teeters on the brink of collapse. Banks fail. Checks written by the largest bank in the country regularly bounce. The local currency is worthless in foreign commerce. The indebted nation, dependent on foreign bankers to keep even a minimal trade afloat, finds its credit gone. Here and there, angry mobs attack the homes and persons of the rich. Politicians campaigning for office promise to repudiate the national debt and inflate away private debt with more paper money.

Newspapers report that desperate debtors in the backwoods are organizing an armed rebellion supported by foreign agents. The rebels group under the command of a mysterious “Committee of Seventeen”. The papers report that the rebels’ aim is nothing less than to establish a radical form of communism, in which they will seize all property in the country and redistribute it equally. An alarmed local governor begs the national assembly for help to restore order. Little is forthcoming. Wealthy citizens are so frightened that they take up a collection in foreign money in order to pay the loyal troops privately.

With debtors in revolt and the government floundering, a leading general determines that the time has come to take charge. “Something must be done or the fabric will fall, for it is certainly tottering.” He wants stronger actions to maintain law and order and to fend off the dangers of communism. Other wealthy citizens join him in organizing a new government that will hopefully take more effective measures to alleviate the economic and political instability. The people welcome him with open arms.

This is a true story. Guess which country this is.

The United States of America

1787