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## ON ISRAEL'S "HYPERINFLATION"

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## Abstract

Affected by the worldwide "Stagflation" of the 1970s caused by sharp oil price rises in 1973 and 1979, Israel experienced elevated inflation rates in the 1970s. These inflation rates not only continued but also accelerated into the 1980s, as Israel saw its inflation hit triple digits at the turn of the decade.

This inflation worsened, and peaked in 1984 and 1985. Noticing the sharply rising inflation rates in Israel, many journalists and academics dubbed Israel's bout of inflation a hyperinflation, and have questioned its exclusion from the Hanke-Krus World Hyperinflation Table. However, an analysis of Israel's CPI data - as reported by the Israel Central Bureau of Statistics - shows that Israel's inflation rates fell short of hyperinflation by a sizable margin.

Analyzing Israel's primary CPI data, we find conclusive evidence that Israel did not hyperinflate in the 1980s, despite many credible analyses to the contrary.

*Keywords:* Hyperinflation, Israeli inflation

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## 1. Introduction

On October 14, 1984, Hobart Rowen wrote an article for *The Washington Post* titled "Israel's Hyperinflation: Ravaged State of Economy a Threat to Israel's Survival." In the article, Rowen writes that "[Israel] now must deal with the reality of a hyperinflation that is running over 400 percent, and in a few days may be measured at the incomprehensible level

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of more than 1,000 percent a year.”<sup>1</sup>

Many followed suit; on April 10, 1986, Pinhas Landau wrote on *The Wall Street Journal* that a new budget played a crucial role in “slashing hyperinflation.”<sup>2</sup> Similarly, on June 6, 1986, Leonard Silk wrote an article for *The New York Times* describing the “halt of hyperinflation in Israel.”<sup>3</sup>

Even today, several newspapers refer to Israel’s outburst of inflation as an episode of hyperinflation. Ofer Adat wrote on June 30, 2015 for *Haaretz* - Israel’s biggest and oldest newspaper - about Israel’s “delivery from hyperinflation.”<sup>4</sup> Furthermore, an *Economist* special report on Israel claims that Israel’s “hyperinflation peaked at 450% a year.”<sup>5</sup>

This misconception of Israel’s hyperinflation has permeated not only the journalistic world, but also the academic world. An IMF Staff Paper by Mario I. Blejer and Nissan Liviatan titled “Fighting Hyperinflation: Stabilization Strategies in Argentina and Israel, 1985-86” details the end of so-called “hyperinflation” in Israel.<sup>6</sup> Furthermore, an article in the *Journal of International Business Studies* details the “unique hyperinflationary conditions of countries such as... Israel.”<sup>7</sup>

Given all these examples in both the journalistic and academic world, it seems commonly accepted that Israel hyperinflated in the 1980s. However, before disproving this notion, we must first outline the modern definition of a hyperinflation.

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<sup>1</sup>Rowen, Hobart. “Israel’s Hyperinflation.” *The Washington Post*, Oct. 14 1984, p. 2.

<sup>2</sup>Landau, Pinhas. “Israel’s Backsliding Economic Policies.” *The Wall Street Journal*, Apr. 10 1986, p. 32.

<sup>3</sup>Silk, Leonard. “Economic Scene: Israel’s Search for Growth.” *The New York Times*, Jun. 6 1986, p. 1.

<sup>4</sup>Adat, Ofer. “The Day the New Israeli Shekel Saved Us From Greece’s Fate.” *Haaretz*, Jun. 30 2015. <https://www.haaretz.com/israel-news/business/the-day-israel-was-rescued-from-hyperinflation-1.5374570>.

<sup>5</sup>“Israel’s economy is a study in contrasts.” *The Economist*, May 18 2017. <https://www.economist.com/special-report/2017/05/18/israels-economy-is-a-study-in-contrasts>.

<sup>6</sup>Blejer, Mario I., and Nissan Liviatan. “Fighting Hyperinflation: Stabilization Strategies in Argentina and Israel, 1985-86.” *Staff Papers (International Monetary Fund)*, vol. 34, no. 3, 1987, pp. 409-438. *JSTOR*, [www.jstor.org/stable/3867091](http://www.jstor.org/stable/3867091).

<sup>7</sup>Jacque, Laurent L., and Peter Lorange. “The International Control Conundrum: The Case of ‘Hyperinflationary’ Subsidiaries.” *Journal of International Business Studies*, vol. 15, no. 2, 1984, pp. 185-201. *JSTOR*, [www.jstor.org/stable/154241](http://www.jstor.org/stable/154241).

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## 2. Definition of a Hyperinflation

In his construction of the “World Hyperinflation Table” - a complete index of all hyperinflations in the world - Steve Hanke adopted Philip Cagan’s widely accepted definition of a hyperinflation.<sup>8</sup> However, he added two additional specifications needed for an inflation to qualify as a hyperinflation. Together, the qualifications for a hyperinflation are:

1. Following Cagan’s definition, the economics profession widely adopted the criteria that to qualify as a hyperinflation, the inflation rate had to be above 50% per month.<sup>9</sup>
2. Hanke specified that this 50% threshold had to be maintained for at least 30 consecutive days.
3. Lastly, Hanke ordered that the episode of hyperinflation had to be both fully documented and reproducible.<sup>10</sup>

We will follow this definition of hyperinflation to classify whether Israel’s bout of inflation qualifies as hyperinflation.

## 3. Israel’s Historical Inflation

Using the Israel Central Bureau of Statistics’ publicly available CPI data, we calculated monthly inflation rates for Israel starting from September 1951. The data can be obtained from the Central Bureau of Statistics’ “Time Series-DataBank” datasets. We used a file that set the base CPI at September 1951. However, any base date works for our purposes, as we are calculating month-over-month percentage change.

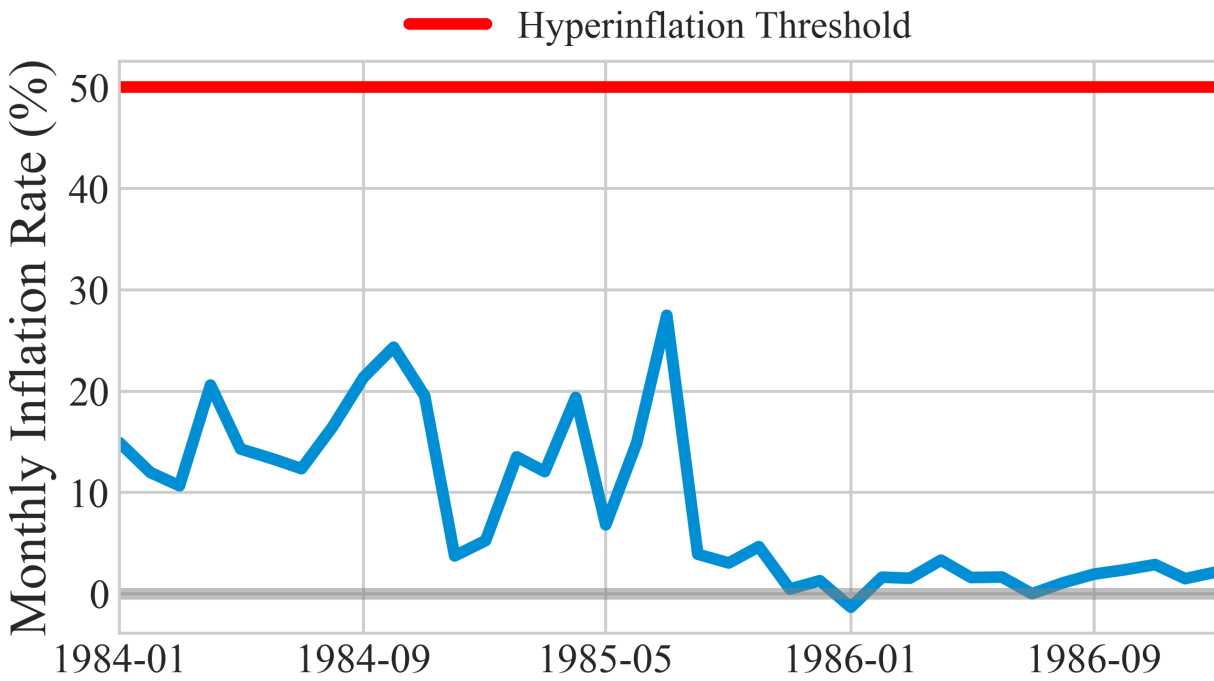
First, we examined the monthly change in CPI from January 1984 to December 1986. This period contains what most consider Israel’s “hyperinflation.” Figure 1 on the next page shows Israel’s monthly inflation rate over this period.

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<sup>8</sup>Hanke, Steve H., and Nicholas Krus. “World Hyperinflations.” *Routledge Handbook of Major Events in Economic History*, Ed. Robert Whaples and Randall Parker. London, Routledge, 2013.

<sup>9</sup>Cagan, Phillip. “The Monetary Dynamics of Hyperinflation.” *Studies in the Quantity Theory of Money*, Ed. Milton Friedman, University of Chicago Press, Chicago, 1956.

<sup>10</sup>Hanke, Steve H., and Charles Bushnell. “On Measuring Hyperinflation: Venezuelas Episode.” *World Economics*, vol. 18, no. 3. Fall 2017.



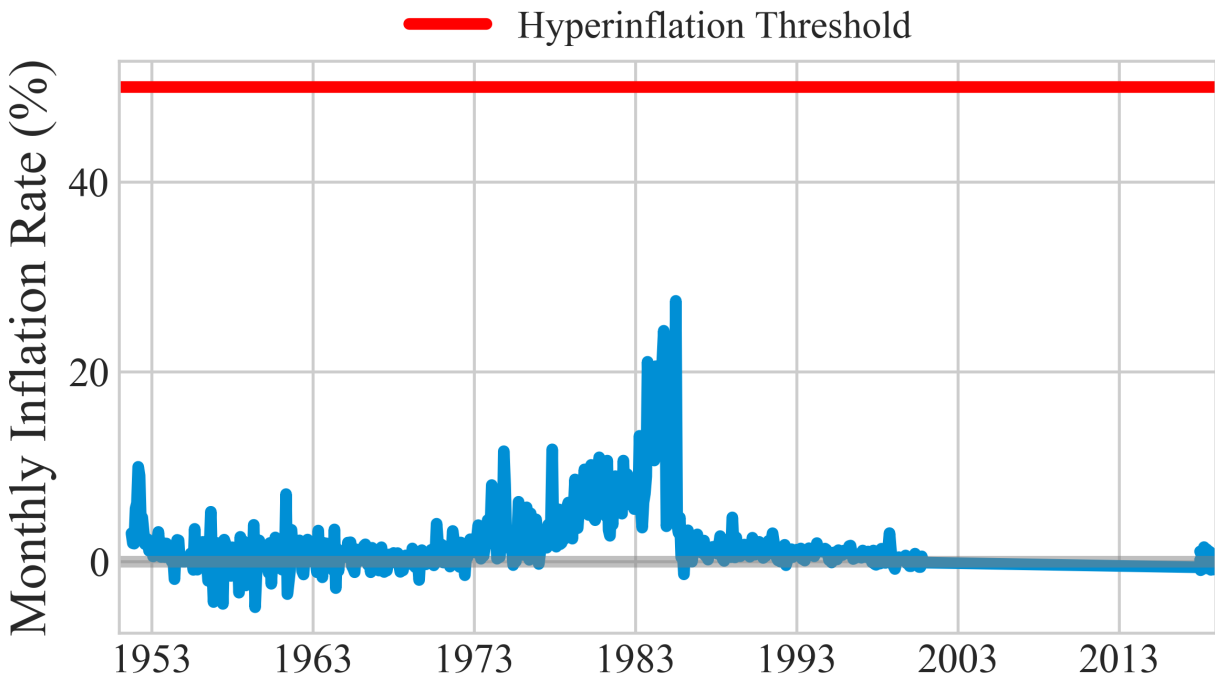
Prepared by Tal Boger. Source: Israel Central Bureau of Statistics

Figure 1: Israel monthly inflation rate, January 1984-December 1986.

This figure makes it clear that Israel did not suffer from hyperinflation during this period. Indeed, its highest monthly inflation rate in this period was 27.49% (July 1985). This falls very short of the 50% monthly inflation rate threshold.

Though Hobart Rowen's article for *The Washington Post* mentions that inflation rates will approach 1,000%, these inflation rates were either never achieved, or not sustained for long enough to have an effect on the monthly CPI. The highest annual inflation rate recorded was reached in November 1984, when the CPI was 486.22% higher than the CPI in November 1983.

A full analysis of Israel's monthly CPI since 1951 shows that Israel was never particularly close to hyperinflating at any point in its history (though it was closest to it in the mid 1980s, as discussed). Given that Israel's inflation rose greatly in the late 1970s, we explored the possibility of a hyperinflation during that time. Figure 2 on the following page shows Israel's monthly inflation rate for the entirety of its CPI data.



Prepared by Tal Boger. Source: Israel Central Bureau of Statistics

Figure 2: Israel monthly inflation rate, October 1951-July 2018.

#### 4. Conclusion

An analysis of Israel's full official CPI data shows that it was never close to hyperinflating in the 1980s, despite many journalistic and academic reports to the contrary. It failed to meet the 50% monthly inflation rate required to be classified as a hyperinflation. Therefore, it was excluded from the original Hanke-Krus World Hyperinflation table.

This provides yet another example of Steve Hanke's "95% rule" for economics: 95% of what is written in economic journals and newspapers is either wrong or irrelevant.<sup>11</sup>

<sup>11</sup>Hanke, Steve H. "Remembrances of a Currency Reformer: Some Notes and Sketches from the Field." *Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise Studies in Applied Economics*, no. 55. 2016.

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