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**REMEMBRANCES OF A
CURRENCY REFORMER: SOME
NOTES AND SKETCHES FROM
THE FIELD**

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Johns Hopkins Institute for Applied Economics,
Global Health, and Study of Business Enterprise



Remembrances of a Currency Reformer: Some Notes and Sketches from the Field

by Steve H. Hanke

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About the Series

The *Studies in Applied Economics* series is under the general direction of Prof. Steve H. Hanke, Co-Director of The Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise (hanke@jhu.edu).

About the Author

Steve H. Hanke is a Professor of Applied Economics and Founder & Co-Director of the Institute for Applied Economics, Global Health, and the Study of Business Enterprise at The Johns Hopkins University in Baltimore. He is a Senior Fellow and Director of the [Troubled Currencies Project](#) at the Cato Institute in Washington, D.C., a Senior Advisor at the Renmin University of China's International Monetary Research Institute in Beijing, a Special Counselor to the Center for Financial Stability in New York, a contributing editor at Central Banking in London, and a contributor at Forbes. Prof. Hanke is also a member of the Charter Council of the Society of Economic Measurement and of Euromoney Country Risk's Experts Panel.

In the past, Prof. Hanke taught economics at the Colorado School of Mines and at the University of California, Berkeley. He served as a Member of the Governor's Council of Economic Advisers in Maryland in 1976-77, as a Senior Economist on President Reagan's Council of Economic Advisers in 1981-82, and as a Senior Advisor to the Joint Economic Committee of the U.S. Congress in 1984-88. Prof. Hanke served as a State Counselor to both the Republic of Lithuania in 1994-96 and the Republic of Montenegro in 1999-2003. He was also an Advisor to the Presidents of Bulgaria in 1997-2002, Venezuela in 1995-96, and Indonesia in 1998. He played an important role in establishing new currency regimes in Argentina, Estonia, Bulgaria, Bosnia-Herzegovina, Ecuador, Lithuania, and Montenegro. Prof. Hanke has also held senior appointments in the governments of many other countries, including Albania, Kazakhstan, the United Arab Emirates, and Yugoslavia.

Prof. Hanke has been awarded honorary doctorate degrees by the Bulgarian Academy of Sciences, the Universität Liechtenstein, the Universidad San Francisco de Quito, the Free University of Tbilisi, Istanbul Kültür University, Varna Free University, and the D.A. Tsenov Academy of Economics in recognition of his scholarship on exchange-rate regimes. He is a Distinguished Associate of the International Atlantic Economic Society, a Distinguished Professor at the Universitas Pelita Harapan in Jakarta, Indonesia, a

Professor Asociado (the highest honor awarded to international experts of acknowledged competence) at the Universidad del Azuay in Cuenca, Ecuador, a Profesor Visitante at the Universidad Peruana de Ciencias Aplicadas (the UPC's highest academic honor), and the Gottfried von Haberler Professor at the European Center of Austrian Economics Foundation in Liechtenstein. In 1998, he was named one of the twenty-five most influential people in the world by World Trade Magazine.

Prof. Hanke is a well-known currency and commodity trader. Currently, he is Chairman of the Supervisory Board of Advanced Metallurgical Group N.V. in Amsterdam and Chairman Emeritus of the Friedberg Mercantile Group, Inc. in Toronto. During the 1990s, he served as President of Toronto Trust Argentina in Buenos Aires, the world's best-performing emerging market mutual fund in 1995.

Prof. Hanke's most recent books are *Zimbabwe: Hyperinflation to Growth* (2008), *A Blueprint for a Safe, Sound Georgian Lari* (2010), *Juntas Monetarias para Paises en Desarrollo* (2015), *Currency Boards for Developing Countries: A Handbook* (2015), and *مروري بر ادبيات تاريخي جريانهاي غيراصلي پولي هيئتهاي پولي* (2018).

Prof. Hanke and his wife, Liliane, reside in Baltimore and Paris.

Five Principles

What follows is a short sketch of some of my currency reform activities – brief notes from the field. For each country, I have included my positions, a brief commentary about my involvement, and citations for the key documents that contain my proposals and reform blueprints. For the most part, I have excluded references to my works that have appeared after a currency reform was adopted. In consequence, many of my articles and books are not included – the list for excluded Argentine articles, for example, exceeds 150 items. Many of my supplemental works can be found at [The Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise website](#) and the [Cato Institute website](#).

There have been 21 countries in which I have either anticipated or stopped hyperinflation: Argentina, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Republika Srpska, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Yugoslavia, and Zimbabwe. The 21 countries account for 29 of the 56 episodes of hyperinflation. Episodes in which I anticipated but played no active role in stopping the hyperinflation do not warrant mention in this commentary and are thus omitted. For the documentation of the world's 56 hyperinflations, see: Hanke and Krus, "World Hyperinflations" (Hanke, Steve H. and Nicholas Krus. "[World Hyperinflations](#)", in: Randall Parker and Robert Whaples (eds.) [The Handbook of Major Events in Economic History](#), London, UK: Routledge, 2013.)

To throw some light on what follows, allow me to mention five principles or rules that have influenced my research and reform activities.

1. [The 95% Rule](#) – My work in the currency reform field confirms an assertion I first heard the late Prof. Armen Alchian make during a lecture at the University of Virginia in the summer of 1967: 95% of the material in economics journals is either wrong or irrelevant. Accordingly, to be right and relevant, you have to think most things through by yourself.
2. [The Plumbing Principle](#) – To develop effective reforms, the late Lord Peter Bauer was fond of counseling me to avoid a curse that afflicts most economists: to float above the detail. I have taken his advice to heart. In consequence, my reform blueprints contain the details and institutional plumbing required to establish and operate new monetary regimes.
3. [The Repetition Rule](#) – At the 1997 Forbes CEO Forum in Los Angeles, the late Prof. Peter Drucker reminded me that the hallmark of great salesmanship is repetition enhanced by incremental product improvement. I have attempted to follow his wise counsel.

4. The Patience Principle – Over many enjoyable summer holidays at Palazzo Mundell in Tuscany, I learned an important principle from Nobelist Robert Mundell: the patience principle. Simply stated, a reformer must develop and circulate his ideas, but have the patience to refrain from striking until the iron is hot, namely in times of crisis and stress.
5. The Numero Uno Rule – If possible, listen carefully to counsel from a trusted advisor who is cultured and wise to the ways and art of statecraft. For me, following this rule has been both possible and pleasurable. I have relentlessly relied on sage counsel from Mrs. Hanke, or as Americans would say: my wife, Liliane. An initial piece of advice has proven invaluable and merits mention: to retain my independence, as well as my speed and freedom of maneuver, Mrs. Hanke has advised me to conduct my affairs in the currency reform field on a *pro bono* basis, not as a paid consultant.

Successful Reforms

1. Argentina's Convertibility System (Installed April 1, 1991)

A. Position – During the 1989-91 period, I worked closely with Congressman José María Ibarbia and his colleagues (the so-called Alsogaray faction) in the Argentine Congress to develop a blueprint for a currency board system (CBS). This blueprint – which was published in Buenos Aires as a book I co-authored with Dr. Kurt Schuler – was debated in congress and presented to President Carlos Menem. President Menem eventually implemented a convertibility system (a modified currency board system) in early 1991. I operated as an informal advisor to President Menem during the 1989-1999 period. During this decade, Mrs. Hanke and I met frequently with Menem. Some of Menem's views were published in *Forbes* magazine after an interview Mrs. Hanke and I conducted with Menem in the Casa Rosada in September 1995. In 1995, I also accepted a formal appointment as an advisor to Domingo Cavallo, the Minister of Economy, a post I held until Cavallo resigned in 1996.

B. Comment – The convertibility system accomplished what it was designed to do: put an immediate halt to Argentina's hyperinflation. However, the Convertibility Law allowed for major deviations from the currency board orthodoxy contained in my original blueprint. In late 1991, I expressed my concerns about the flaws in the convertibility system and predicted that the system would eventually encounter problems (Steve H. Hanke, "Argentina Should Abolish its Central Bank," *The Wall Street Journal*, October 25, 1991). As time passed, my critiques became more pointed – as can be seen in my paper, *Why Argentina did not have a Currency Board* – but these critiques were to no avail. In December 2001, Argentina suspended its debt payments and trading of the peso. On January 6, 2002, Argentina abandoned the convertibility system and the Argentine peso was devalued.

C. *Documents* - Hanke, Steve H. and Kurt Schuler. [Banco Central o Caja de Conversion?](#). Buenos Aires: Fundacion Republica, 1991 (Spanish) (Preface by José María Ibarbia).

Hanke, Steve H. "[Argentina Should Abolish Its Central Bank](#)," *The Wall Street Journal*, October 25, 1991.

Menem, Carlos. "The Great Modernizer." Interview by Steve H. Hanke and Liliane Hanke. *Forbes* 11 Sept. 1995: 129-30.

Hanke, Steve H. "[Why Argentina Did Not Have A Currency Board](#)," *Central Banking*, Vol. XVIII, No. 3, February 2008.

Hanke, Steve H. "[Milton Friedman: Float or Fix?](#)" *Cato Journal* 28.2 (2008). *Cato.org*. The Cato Institute, Spring/Summer 2008. Web.

Hanke, Steve H. "[Reflections on Currency Reform and the Euro](#)," *Econ Journal Watch*, Vol. 7, No. 1, January 2010.

Hanke, Steve H. "[Currency Boards](#)." *The SAGE Encyclopedia of Business Ethics and Society*. Ed. Robert W. Kolb. Thousand Oaks: SAGE Publications, 2018. 803-04.

2. Estonia's Currency Board System (Installed June 20-24, 1992)

A. *Position* – I did not have an official position in Estonia. Nevertheless, I was able to accomplish a great deal in a short period of time. This result was obtained thanks to my collaborators (both inside and outside Estonia) and the unusual circumstances that faced Estonia in the early days of its newfound independence.

B. *Comment* – In the fall of 1991, Prof. Lars Jonung of the Stockholm School of Economics telephoned to inform me that there was an opportunity to put my currency board research and experience to use in Estonia. Following that initial conversation, we decided to develop a blueprint for an Estonian currency board. Dr. Kurt Schuler, who was a post-doctoral fellow at the Johns Hopkins University (1991-96), collaborated with us on this project. It resulted in a book published simultaneously in English and Estonian.

In March 1992, Prof. Jonung became the Chief Economic Advisor to the Prime Minister of Sweden, Carl Bildt. Prime Minister Bildt embraced the idea of a currency board for Estonia. On May 5, 1992, Mrs. Hanke and I travelled to Tallinn, where I presented our currency board blueprint to the members of Estonia's Constituent Assembly. Little more than a month later, the Estonian CBS was up and running. Estonia illustrates how much can be accomplished in a short period of time.

Why was the CBS adopted so rapidly? The answer to this question became clear to me during my May 1992 meetings with the chairman of the Supreme Soviet of the Republic of Estonia, Arnold Rüütel, Prime Minister Tiit Vähi and other Estonian notables. These meetings were arranged and attended by my good friend from Caracas, Venezuela (an ex-pat from Estonia), the late Harry Mannil. The Estonian leadership thought (correctly, in my view) that a CBS would allow Estonia to reestablish monetary sovereignty with a strong, rule-bound currency regime – one that would allow for a safe, rapid Estonian exit from the ruble zone. This fact, more than anything else, provided the motivation for a rapid adoption of the Estonian CBS.

C. Documents - Hanke, Steve H., Lars Jonung and Kurt Schuler. [Monetary Reform for a Free Estonia](#). Stockholm: SNS Forlag, 1992.

Hanke, Steve H., Lars Jonung and Kurt Schuler. [Rahareform Vabale Eestile: Valuutafondi Lahendus](#). Tartu, Estonia: Tartu Ulikool, 1992 (Estonian).

Hanke, Steve H. "[Milton Friedman: Float or Fix?](#)" *Cato Journal* 28.2 (2008). *Cato.org*. The Cato Institute, Spring/Summer 2008. Web.

Hanke, Steve H. "[Reflections on Currency Reform and the Euro](#)," *Econ Journal Watch*, Vol. 7, No. 1, January 2010.

Hanke, Steve H. "[Currency Boards](#)." *The SAGE Encyclopedia of Business Ethics and Society*. Ed. Robert W. Kolb. Thousand Oaks: SAGE Publications, 2018. 803-04.

3. Lithuania's Currency Board System (Installed April 1, 1994)

A. Position – I served as State Counselor on Monetary and Financial Issues, a position that carried Cabinet rank, for the Republic of Lithuania (1994-96), where I drafted the CBS law and assisted in installing the CBS.

B. Comment – Prime Minister Adolfoas Šleževičius visited Estonia in 1993, was impressed by Estonia's CBS, and inquired as to who was the CBS's architect. As a result, he contacted me in Paris and invited Mrs. Hanke and me for a private lunch in Vilnius on January 26, 1994. Before the dessert was served, the Prime Minister had decided that Lithuania would install a CBS and that I would serve as State Counselor. This rapid decision was based, in part, on the impressive performance of Estonia's CBS. In addition, Prime Minister Šleževičius was convinced that a rule-based CBS would put the Bank of Lithuania on a short leash and impose a hard budget constraint on the Lithuanian parliament.

C. *Documents* – Hanke, Steve H. and Kurt Schuler. [Valiutu Taryba: Pasiulymai Lietuvai](#). Vilnius, Lithuania: Lietuvos Laisvosios Rinkos Institutas, 1994 (Lithuanian).

Hanke, Steve H. "[Milton Friedman: Float or Fix?](#)" *Cato Journal* 28.2 (2008). *Cato.org*. The Cato Institute, Spring/Summer 2008. Web.

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Hanke, Steve H. "[Currency Boards](#)." *The SAGE Encyclopedia of Business Ethics and Society*. Ed. Robert W. Kolb. Thousand Oaks: SAGE Publications, 2018. 803-04.

4. Bulgaria's Currency Board System (Installed July 1, 1997)

A. *Position* – I served as an advisor to the President of the Republic of Bulgaria (1997-2001), where I assisted in drafting the CBS law and installing the CBS.

B. *Comment* – My experience in Bulgaria illustrates the virtue of patience. In 1990, Mrs. Hanke and I traveled to Sofia. Our objective was to present the CBS idea to Bulgarian officials, intellectuals, and the general public. After our initial trip, we concluded that Bulgarian economists had never heard the words "currency board" and had no idea how such a monetary regime would work. In consequence, I developed a blueprint for a Bulgarian CBS.

Armed with that book, Mrs. Hanke and I made several visits to Bulgaria after its publication in 1991. Even though the CBS generated genuine interest in certain circles, the official response was negative. The oft-repeated refrain of the former Governor of the Bulgarian National Bank, Prof. Todor Valchev, was typical of government officials: thank you for your interest in Bulgaria and your proposal, but we know the realities of the local situation and have everything under control.

Once hyperinflation broke out in 1996, that refrain rang hollow and things began to change rapidly. In December 1997, the Bulgarian Ambassador to the U.S. requested that I present my CBS ideas in Washington, D.C. In the same month, a pirated version of a book Dr. Kurt Schuler and I had co-authored in English was translated into Bulgarian and reached the top of the best-seller list in Sofia. In late February, Mrs. Hanke and I traveled to Sofia and President Petar Stoyanov invited me to become his advisor, to draft a CBS law for Bulgaria, and to explain to Bulgarian politicians and the public how such a system would halt hyperinflation.

The CBS was installed on July 1, 1997. Inflation and interest rates plunged immediately. I can recall the genuine pleasure (perhaps relief, too) President

Stoyanov displayed when he congratulated me on the outstanding results produced during the first few months of the CBS. It was then that he confessed that he had hoped the CBS would kill inflation, but that he had reservations and was amazed when the CBS worked even more rapidly than I had predicted. Much later, President Stoyanov confided to Mrs. Hanke and me during one of our regular meetings that, without the stability created by the CBS, Bulgaria would have had much more difficulty entering the North Atlantic Treaty Organization (NATO) in 2004 and the European Union in 2007.

C. *Documents* – Hanke, Steve H. and Kurt Schuler. [Teeth for the Bulgarian Lev: A Currency Board Solution](#). Washington, D.C.: *International Freedom Foundation*, 1991.

Hanke, Steve H. and Kurt Schuler. [Currency Board, Beginning or End](#). Sofia, Bulgaria: Ick “Bard”, 1996 (Bulgarian).

Hanke, Steve H. and Kurt Schuler. [Currency Boards: The Financing of Stabilization](#). Sofia, Bulgaria: Friedrich Ebert Stiftung, 1997 (Bulgarian).

Hanke, Steve H. [“Milton Friedman: Float or Fix?”](#) *Cato Journal* 28.2 (2008). *Cato.org*. The Cato Institute, Spring/Summer 2008. Web.

Hanke, Steve H. [“Reflections on Currency Reform and the Euro,”](#) *Econ Journal Watch*, Vol. 7, No. 1, January 2010.

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5. Bosnia and Herzegovina’s Currency Board System (Installed August 11, 1997)

A. *Position* – I served as special advisor to the U.S. Government in December 1996. The Dayton/Paris Peace Agreement (November 21, 1995) mandated that Bosnia and Herzegovina employ a CBS for at least six years. My assignment was to make certain that the new CBS law, which was being written by local government officials and staff members from the International Monetary Fund, was as orthodox as possible.

B. *Comment* – The most memorable part of the CBS episode was the flight Mrs. Hanke and I had from Zagreb to Sarajevo on December 11, 1996. We were packed with NATO-IFOR Troops into a very noisy Dutch military transport. This was the only safe means of passage into the war-torn city of Sarajevo.

During our stay in Bosnia and Herzegovina, we had heavy security, particularly when we traveled to Pale for meetings with officials from the Serb Republic. Those meetings with the Serbs struck me because the Serbs were quite fluent

with my CBS ideas. The Serbs indicated that they had studied a book I had co-authored with Dr. Kurt Schuler. That book had been translated into Serbo-Croatian and published by the Ekonomski Institute Beograd in 1991.

I discovered another surprising connection to that book during a lunch with Mrs. Hanke, and other notables at the Grand Hyatt hotel in Hong Kong on March 27, 1998. In discussing the Dayton/Paris Peace Agreement with the late Ambassador Richard Holbrooke, he recounted how easy it was to deal with the late Slobodan Milosevic (head of the delegation representing the Federal Republic of Yugoslavia in Dayton) when it came to the issue of a new monetary system for Bosnia and Herzegovina. It turns out that Milosevic was familiar with my book in Serbo-Croatian and my CBS ideas because I had served as an advisor to the Deputy Prime Minister of the Socialist Federal Republic of Yugoslavia in the 1990-June 1991 period.

C. Documents - Hanke, Steve H. and Kurt Schuler. [Monetary Reform and the Development of a Yugoslav Market Economy](#). London: Center for Research Into Communist Economies, 1991.

Hanke, Steve H. and Kurt Schuler. [Monetarna Reforma I Razvoj Jugoslovenske Trzisne Privrede](#). Beograd: Ekonomski Institute Beograd, 1991 (Serbo-Croatian).

Hanke, Steve H. "[A Field Report from Sarajevo and Pale](#)", *Central Banking*. Vol. VII, No. 3, Winter 1996/97.

Hanke, Steve H. "[Milton Friedman: Float or Fix?](#)" *Cato Journal* 28.2 (2008). *Cato.org*. The Cato Institute, Spring/Summer 2008. Web.

Hanke, Steve H. "[Reflections on Currency Reform and the Euro](#)," *Econ Journal Watch*, Vol. 7, No. 1, January 2010.

6. Montenegro's adoption of the German Mark (Adopted November 2, 1999)

A. Position - I served as a State Counselor, a position that carried Cabinet rank, and Advisor to the President of the Republic of Montenegro (1999-2003), where I determined that the replacement of the Yugoslav dinar with the German mark was both feasible and desirable and where I developed the architecture for the official introduction of the German mark as legal tender in Montenegro.

B. Comment - During the summer and fall of 1999, I assisted President Milo Djukanovic in formulating an economic strategy designed to create the conditions for Montenegro to become a fully independent republic. (Independence was formally finalized by referendum on May 21, 2006.) Much of the basis for my early work with President Djukanovic was laid out in a book that I co-authored with Dr. Zeljko Bogetic, a Montenegrin who, at the time, was an economist at the International Monetary Fund in Washington, D.C.

In 1999, Montenegro was still part of the Federal Republic of Yugoslavia, along with Serbia. Strongman Slobodan Milosevic was the President of Yugoslavia and had control of the Yugoslav army. On November 2, 1999, President Djukanovic made a daring and decisive move that would set Montenegro on a course towards independence: Montenegro granted the mighty German mark legal tender status. This all but eliminated the hapless Yugoslav dinar from circulation in Montenegro. It also infuriated President Milosevic. Although he refrained from unleashing the Yugoslav army on Montenegro, he was reported to have given serious consideration to the idea.

President Milosevic's operatives did engage in a great deal of mischief, however. For one thing, I became a marked man. The Yugoslav Information Minister, Goran Matic, produced a steady stream of bizarre stories about my alleged activities. These were disseminated via the Yugoslav state news agency, Tanjug. Among other allegations, I was accused of being the leader of a smuggling ring that was destabilizing the Serbian economy by flooding it with counterfeit Yugoslav dinars. The most spectacular accusation, however, was that I was a French secret agent who controlled a hit-team code-named "Pauk" ("Spider") and that this five-man team's mission was to assassinate President Milosevic. In addition to this comedy of the absurd, there was a serious side. I knew this was the case because, although we were kept in the dark about the specific nature of the threat, Mrs. Hanke and I were always supplied with proper security from the President's office when we traveled to Podgorica—a difficult destination that often required a flight from Zagreb to Dubrovnik, Croatia and then a long, but beautiful, trip through the mountains of Montenegro.

In any case, the adoption of the German mark was Montenegro's first secession step – a step that was eventually supported by the United States and its allies. On November 4, 1999, I, with the help of Senators Steve Symms and Trent Lott, arranged a meeting at the U.S. Capitol in which Djukanovic and I made a case for Montenegro's currency reform. The members of congress in attendance – Trent Lott, Steve Symms, Richard Lugar, John Warner, Harry Reid, Larry Craig, Kay Bailey Hutchison, among others – warmly received our message. The United States ended up supporting Montenegro's currency reform.

C. *Documents* – Bogetic, Zeljko and Steve H. Hanke. Cronogorska Marka. Podgorica, Montenegro: Antena M, 1999 (Serbo-Croatian).

Hanke, Steve H. "[Bring The Balkans Into the Deutschezone](#)," *The Wall Street Journal*, June 18, 1999.

Hanke, Steve H. "Montenegro Trailblazers Its Own Path," *The Wall Street Journal*, July 23-24, 1999.

Hanke, Steve H. "[Montenegro, The Next Balkan Hot Spot](#)," *Forbes*, September 6, 1999.

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Hanke, Steve H. "[Reflections on Currency Reform and the Euro](#)," *Econ Journal Watch*, Vol. 7, No. 1, January 2010.

Hanke, Steve H. "[On Montenegro's March to NATO](#)." *Huffington Post*. N.p., 17 Dec. 2015. Web.

Hanke, Steve H. "[Currency Boards](#)." *The SAGE Encyclopedia of Business Ethics and Society*. Ed. Robert W. Kolb. Thousand Oaks: SAGE Publications, 2018. 803-04.

7. Ecuador's adoption of the U.S. Dollar (Adopted March 13, 2000)

A. Position – Although I did not have an official position in Ecuador when they adopted the dollar, I had been very involved in the country's currency reform debate since 1996 and was later appointed as an advisor to assist in Ecuador's dollarization.

B. Comment – I first became involved in Ecuador's currency reform debate in May 1996, when I visited Guayaquil. At that time, Abdalá Bucaram was a candidate for the Presidency. After my visit, he became intrigued with the CBS idea. Although he won the election, he only served as President from August 1996 until February 1997.

The currency reform idea appeared again in 1999. The value of Ecuador's currency, the sucre, plummeted, losing 75 percent of its value against the U.S. dollar from the start of 1999 until the first week of January 2000. As a result, President Jamil Mahuad announced on January 9, 2000 that Ecuador would abandon the sucre and officially adopt the U.S. dollar. At that time, I was not serving in any official capacity. I accepted a formal appointment as an advisor to Carlos Julio Emanuel, the Minister of Economy and Finance of the Republic of Ecuador, in 2002.

Ecuador's dollarization is an outstanding example of "The 95% Rule" in action. At least 95% of what was written about the feasibility and prospects for dollarization was either wrong or irrelevant. The International Monetary Fund, the Banco Central del Ecuador, leading investment banks, and economic commentators — including Prof. Paul Krugman — all warned that dollarization would be a disaster. How wrong they were. After Ecuador officially adopted the dollar, economic indicators immediately switched from negative to positive.

C. *Documents* – Hanke, Steve H. and Kurt Schuler. [Juntas Monetarias para Paises en Desarrollo](#). Caracas: Editorial Panapo, 1995 (Spanish).

Hanke, Steve H. "[How to Abolish Currency Crises](#)," *Forbes*, March 20, 2000.

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Santos, Tristana. [The Dollarizers](#). Working paper no. 31. Studies in Applied Economics, Johns Hopkins University. The Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise, Apr. 2015. Web.

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Other Reform Attempts

1. Yugoslavia (1990-91)

A. *Position* – I served as the Personal Economic Advisor to the Deputy Prime Minister of the Socialist Federal Republic of Yugoslavia from 1990 until June 1991, when the civil war broke out.

B. *Comment* – I first met Deputy Prime Minister Zivko Pregl in late 1989 at a dinner in Vienna, Austria. The dinner, which Mrs. Hanke and I attended, was arranged by our good friend, the late-great Daniel Swarovski from Wattens, Tyrol. The day following our most pleasurable dinner, Pregl – the person responsible for developing economic reforms for the Yugoslav government led by the late Ante Marković – requested a meeting. We discussed his reform ideas and he invited me to become his advisor. I indicated that I had reservations because I was a classical liberal, free-market economist and he was a leader of the Communist League of Yugoslavia. Pregl then surprised me when he said my qualifications were exactly why he invited me to be his advisor. He asserted that he wanted to implement free-market reforms and didn't want watered-down advice. Pregl persisted and, after I learned that he had a hand in the dissolution of the Communist League of Yugoslavia in January 1990 and was committed to real free-market reforms, I agreed to become his advisor.

I concluded that my first task should be the development of policies to stamp out Yugoslavia's inflation. After all, stability might not be everything, but everything is nothing without stability. I set out to design a CBS that would rid Yugoslavia of its endemic inflation problems. From 1971-91, Yugoslavia's annualized rate of inflation was 76 percent; only Zaire and Brazil recorded higher inflation rates during that period.

The Ekonomski Institute Beograd, a research institute that was headed by our good friend, Danko Djunic, published my blueprint as an attractive book in the Serbo-Croatian language. The book was also published in an English edition by the Centre for Research into Communist Economies, a London-based organization that was headed by a Yugoslav (Slovenian) expatriate, and another good friend, Prof. Ljubo Sirc. Mrs. Hanke and I spent a great deal of our time in 1990-91 in Belgrade, where we were in residence at the Intercontinental Hotel. We traveled extensively throughout Yugoslavia, educating the public about the virtues of sound money and the benefits of adopting a CBS. We attracted many supporters, but in June 1991, Yugoslavia's civil war began and currency reform was pushed to the sidelines.

C. Documents – Hanke, Steve H. and Kurt Schuler. [Monetary Reform and the Development of a Yugoslav Market Economy](#). London: Centre for Research Into Communist Economies, 1991.

Hanke, Steve H. and Kurt Schuler. [Monetarna Reforma I Razvoj Jugoslovenske Trzisne Privrede](#). Beograd: Ekonomski Institute Beograd, 1991 (Serbo-Croatian).

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2. Albania (1991-92)

A. Position – I served as a Special Adviser on Currency Reform to the Deputy Prime Minister and Minister of the Economy (1991-92).

B. Comment – I had high hopes for an Albanian CBS. After all, the Deputy Prime Minister and Minister of Economy, the late Gramoz Pashko, was a trained

economist and supported the CBS idea. Unfortunately, he was hopelessly disorganized and an ineffective advocate. I can recall the first time I entered his office in Tirana. He stood to greet me; a photo of Mother Teresa was on the wall behind him and a revolver was strapped to his belt. After that encounter, nothing struck me as strange in what, at the time, was a strange and beautiful country.

There were virtually no automobiles in Albania then. Fortunately, Mrs. Hanke and I had a driver and one of the few old Mercedes in the government fleet at our disposal. The government shut down early each afternoon. We took advantage of that custom to travel from Tirana to Durrës for a dip in the Adriatic. These trips were most enjoyable. Mrs. Hanke communicated with our driver via his daughter, who had studied French, but had never met anyone from France, let alone Paris. We had our pick of the beaches south of Durrës simply because there were absolutely no other bathers. Indeed, there were no other people – not even a cat or dog.

C. Documents – Hanke, Steve H. and Kurt Schuler. [A Currency Board Solution for the Albanian Lek](#). Washington: International Freedom Foundation, 1991.

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3. Russia (1991-99)

A. Position – Although I was very much a part of the currency debates in Russia for most of the 1990's, I did not hold an official position.

B. Comment – Over an extended period of time, the CBS idea circulated in Russia, moving in cycles from hot to cold. Two of the first Russian politicians I discussed the CBS idea with were Sergei Krasavchenko, the Chairman of the Committee on Economic Reform and Ownership of the Russian Duma, and Vladimir Shumeyko, the Deputy Chairman of the Committee on Economic Reform and Ownership of the Russian Duma. He, and a delegation of ten Russian parliamentarians, paid me a visit at The Johns Hopkins University in Baltimore, where I conducted a one-day briefing on currency boards on one hot June day in 1991.

My next meeting with a delegation from Russia took place in Paris at a meeting Mrs. Hanke and I helped arrange in early November 1991. It lasted several days and was eventful. As the leader of the Russian delegation, Academician Dmitri S. Lvov opened the meetings with a press conference. By the time our meetings had concluded, there had been a coup. Dr. Yegor Gaidar, not Academician Lvov, held forth as the Russian's leader at the final press conference. Mrs. Hanke and I immediately knew something significant had happened in Paris. Sure enough, shortly after he returned to Moscow, Dr. Gaidar was appointed to his first major post, Minister of Economy and Finance, on November 11, 1991. For me, this was relevant because I was a member of the Scientific Advisory Council of the International Centre for Research into Economic Transformation (ICRET), a think tank that Dr. Gaidar had founded.

In 1992, I spent a considerable amount of time advocating for a Russian currency board. To that end, I met with the Mayor of St. Petersburg, an influential advocate of economic reforms, the late Anatoly Sobchak, during an early May 1992 visit to St. Petersburg. It was at a reception following our meetings that Mrs. Hanke and I met Vladimir Putin, who was one of Sobchak's advisers at the time.

Following our St. Petersburg trip, the late Jean-Bernard Raimond, former Ambassador from France to the Soviet Union, commissioned a private jet, and in late June 1992, we, along with Madame Raimond and Mrs. Hanke, departed from the Le Bourget Airport in Paris for a few days in Moscow. I thought things looked very promising when we met the newly installed Acting Prime Minister Yegor Gaidar during that trip. Indeed, the evening in which Gaidar, Mrs. Hanke, and our friends from Paris christened the new brasserie at the Hotel Metropol, things couldn't have looked better.

During 1992, I also spent a great deal of time trying to beat back CBS objections coming from certain elements of the IMF's management. Their argument was, in short, that the IMF couldn't approve a Russian CBS because the U.S. Congress would be opposed to it. To ridicule this absurd anti-CBS argument, I worked with the leader of the U.S. Senate, Bob Dole, and Senators Steve Symms and Phil Gramm to draft U.S. legislation that would allow countries to use part of the U.S.'s quota contribution to the IMF for the establishment of currency boards. This legislation, (HR-5368, Law no. 102-391), was signed into law on October 6, 1992.

But, by then, the CBS idea had cooled down in Russia. It didn't heat up again until the ruble collapsed in 1998, as I had predicted it would. In the middle of the crisis (August 1998), IMF Managing Director Michel Camdessus rushed off to the Crimea for a meeting with the Prime Minister-designate, the late Viktor Chernomyrdin. It was then that Mr. Camdessus informed the Russian delegation that the IMF would back a Russian CBS. The CBS idea got hot again. But the type

of discipline associated with a CBS wasn't agreeable to Moscow's power brokers, and the idea cooled down once again.

I made my last attempt to employ "The Repetition Rule" in March 1999, when Mrs. Hanke and I spent a weekend with Chernomyrdin at the Chateau de Divonne in Divonne-les-Bains, France. At that time, Chernomyrdin was not part of the government, but was serving as chairman of the Council of Directors of Gazprom. So, he still had plenty of clout. In any case, my arguments clearly did not carry the day, and I reluctantly concluded that, unless the state of affairs dramatically changed, the prospects for a Russian CBS were not worth pursuing any further.

C. *Documents* – Hanke, Steve H. and Kurt Schuler. "[Keynes's Russian Currency Board](#)", in: Steve H. Hanke and Alan A. Walters (eds.), *Capital Markets and Development*. San Francisco: *Institute for Contemporary Studies Press*, 1991.

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4. Kazakhstan (1994)

A. *Position* – I served as an Advisor to President Nursultan Nazarbayev (1994).

B. *Comment* – This episode began and ended in curious ways. It began on September 13, 1994, when I traveled from Paris to Vilnius, Lithuania for what I thought was going to be a meeting with Prime Minister Šleževičius about Lithuania's economic reforms. But when I arrived, the Prime Minister announced that we would travel the next day to Almaty, which was then the capital of Kazakhstan. Among other things, I would be meeting with President Nursultan Nazarbayev to discuss the possibility of installing a currency board in Kazakhstan.

How did this turn of events occur? Prime Minister Šleževičius explained that President Nazarbayev had recently visited Lithuania, was impressed with its new currency board, and wanted to meet the person who designed it.

Our delegation departed from Vilnius in high spirits on the morning of September 14, 1994 in a small jet and arrived in Almaty late in the afternoon. After a colorful ceremony at the airport, we drove at high speed (all intersections had been blocked by police for miles) in Zil limousines across a very sprawling city with low-slung buildings to our destination: the tomb of the Unknown Soldier. I thought I would stay in the limo, but as a Lithuanian State Counselor, Prime Minister Šleževičius insisted that I join him in laying a wreath at the tomb.

Our delegation was treated royally. I was assigned to official residence number two. As it turned out, Prime Minister Šleževičius and other members of the Lithuanian delegation had completed their graduate studies at Moscow State University back in the days of the U.S.S.R. and knew several of their Kazakh counterparts from student days.

On September 15th, I made the rounds, meeting the Vice President and various ministers and central bank officials. President Nazarbayev and I met over tea and Turkish delights on September 16th. It was then that the President appointed me as his adviser and indicated that he wanted a currency board installed.

I was taken aback when the President indicated that he would like it installed during the following week. I informed him that, given the nature of data I had received from the central bank, the Ministry of Finance, and the Ministry of Economy and Budget Planning, I could not conduct my usual due diligence exercise and install a currency board in Kazakhstan in a week. My meetings the day before had convinced me that it was going to be difficult to conduct a due diligence exercise in Kazakhstan. Indeed, I thought it was going to be more akin to a “pulling teeth” exercise.

The President and I agreed that I would stay in Almaty a few extra days to prepare a data request and that I would return in late October for the completion of my currency board feasibility study. The rest of the Lithuanian delegation went to observe a rocket launch at Baikonur Cosmodrome, but I was quite content to proceed with my due diligence exercise in Almaty instead.

After I returned to the U.S., I continued work on the feasibility of a currency board for Kazakhstan and was preparing to depart with Mrs. Hanke for Almaty when I received a letter from the Cabinet of Ministers. It indicated that President Nazarbayev had given the order to the Cabinet of Ministers to prepare the “necessary information for your coming to Kazakhstan.” The letter went on to say:

“It’s noteworthy to mention that the volume of the required data is quite large and will need a long time for its collection and systemization. Additionally,

issues raised by you involve strategically important aspects of this country (sic) actions and naturally that the answers to them can not be sent to you by fax.”

In closing, the letter indicated that after the data I had requested were produced, the Cabinet of Ministers would analyze it and, based on its findings, would notify me concerning my planned trip to Almaty.

It was rather clear to me that there would not be another trip. Indeed, I had concluded during my September trip that the Russians had mounted an anti-Kazakhstan currency board campaign immediately after they had received word that I was in Almaty. Moscow did not want a sound tenge. At that time, the Russians preferred a weak, unstable tenge and a neighbor that was not sure-footed.

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5. Indonesia (1998)

Although the CBS was not adopted when I proposed it in 1998, the Indonesian CBS episode was most noteworthy. Indeed, it put the CBS issue at the center of the international radar screen.

A. *Position* – I was President Suharto's Advisor and Special Counselor to the Economic and Monetary Resilience Council of the Republic of Indonesia in 1998.

B. *Comment* – On August 14, 1997, shortly after the Thai baht collapsed on July 2nd, Indonesia floated the rupiah. This prompted Stanley Fischer, Deputy Managing Director of the International Monetary Fund, to proclaim that "the management of the IMF welcomes the timely decision of the Indonesian authorities. The floating of the rupiah, in combination with Indonesia's strong fundamentals, supported by prudent fiscal and monetary policies, will allow its economy to continue its impressive economic performance of the last several years."

Contrary to the IMF's expectations, the rupiah did not float on a sea of tranquility. It plunged from 2,700 rupiahs per U.S. dollar at the time of the float to a low of nearly 16,000 rupiahs per U.S. dollar in 1998. Indonesia was caught up in the maelstrom of the Asian crisis.

By late January 1998, President Suharto realized that the IMF medicine was not working and sought a second opinion. In February, I was invited to offer that opinion and began to operate as Suharto's Special Counselor. Although I did not have any opinions on the Suharto government, I did have definite ones on the matter at hand. After the usual daily discussions at the President's private residence, I proposed, as an antidote, an orthodox currency board in which the rupiah would be fully convertible into the U.S. dollar at a fixed exchange rate. On the day that news hit the street, the rupiah soared by 28 percent against the U.S. dollar on both the spot and one-year-forward markets. These developments infuriated the U.S. government and the IMF.

Ruthless attacks on the currency board idea and the Special Counselor ensued. Suharto was told in no uncertain terms – by both the President of the United States, Bill Clinton, and the Managing Director of the IMF, Michel Camdessus – that he would have to drop the currency board idea or forego \$43 billion in foreign assistance. He was also aware that his days as President would be numbered if the rupiah was not stabilized.

Economists jumped on the bandwagon, too. Every half-truth and non-truth imaginable was trotted out against the currency board idea. In my opinion, those oft-repeated canards were outweighed by the full support for an Indonesian currency board (which received very little press) by four Nobel Laureates in Economics: Gary Becker, Milton Friedman, Merton Miller, and Robert Mundell. My colleague and collaborator – Margaret Thatcher's economic guru Sir Alan Walters – also went public with his support of the CBS idea for Indonesia.

As for the *ad hominem* attacks on me, they followed an unoriginal, standard formula, one that contained contradictory claims. On the one hand, I was depicted as an obscure economist who had played a minor, or no, role in the currency board reforms of the 1990s; on the other hand, I allegedly had an enormous and corrupting influence in the currency reform sphere.

Why all the fuss over a currency board for Indonesia? Merton Miller understood the great game immediately. As he wrote when Mrs. Hanke and I were in residence at the Shangri-La Hotel in Jakarta, the Clinton administration's objection to the currency board was "not that it wouldn't work but that it would, and if it worked, they would be stuck with Suharto." A similar argument was articulated by Australia's former Prime Minister Paul Keating: "The United States Treasury quite deliberately used the economic collapse as a means of bringing about the ouster of President Suharto." Former U.S. Secretary of State Lawrence

Eagleburger weighed in with a similar diagnosis: "We were fairly clever in that we supported the IMF as it overthrew (Suharto). Whether that was a wise way to proceed is another question. I'm not saying Mr. Suharto should have stayed, but I kind of wish he had left on terms other than because the IMF pushed him out." Even Michel Camdessus could not find fault with these assessments. On the occasion of his retirement, he proudly proclaimed: "We created the conditions that obliged President Suharto to leave his job."

To depose Suharto, two deceptions were necessary. The first involved forging an IMF public position of open hostility to currency boards. This deception was required to convince Suharto that he was acting heretically and that, if he continued, it would be costly. The IMF's hostility required a quick about-face. Less than a year before the Indonesian uproar, Bulgaria (where I was President Stoyanov's advisor) had installed a currency board on July 1, 1997 with the enthusiastic endorsement of the IMF, and Bosnia and Herzegovina (where I advised the government on currency board implementation) had followed suit under the mandate of the Dayton/Paris Peace Agreement and with IMF support on August 11, 1997.

Shortly after Suharto departed, the IMF's currency board deception became transparent. On August 28, 1998, Michel Camdessus announced that the IMF would give Russia the green light if it chose to adopt a currency board. This was followed on January 16, 1999 with a little-known meeting in Camdessus' office at the IMF headquarters in Washington, D.C. The assembled group included IMF top brass, Brazil's Finance Minister Pedro Malan, and the Banco Central de Brasil's Director of Monetary Policy Francisco Lopes. It was at that meeting that Camdessus suggested that Brazil adopt a currency board.

The second deception involved the widely-circulated story that I had proposed to set the rupiah's exchange rate at an overvalued level so that Suharto and his cronies could loot the central bank's reserves. This take-the-money-and-run scenario was the linchpin of the Clinton administration's campaign against Suharto. It was intended to "confirm" Suharto's devious intentions and rally international political support against the currency board idea and for Suharto's ouster.

The overvaluation story was enshrined by the *Wall Street Journal* on February 10, 1998. The Journal reported that Peter Gontha had summoned me to Jakarta and that I had prepared a working paper for the government recommending that the rupiah-U.S. dollar exchange rate be set at 5,500. This was news to me. I did not meet, nor know of, Peter Gontha, nor had I authored any reports about Indonesia or proposed an exchange rate for the rupiah.

I immediately attempted to have this fabrication corrected. It was a difficult, slow, and ultimately unsatisfactory process. Although the *Wall Street Journal*

reluctantly published a half-baked correction on February 14th, the damage had been done.

The *Journal's* original fabrication (or some variant of it) was repeated in virtually every major magazine and newspaper in the world, and it continues to reverberate to this day, even in so-called scholarly books and journals. For example, in his 2000 memoir, *From Third World to First, The Singapore Story: 1965-2000*, Lee Kuan Yew asserts that "in early February 1998, Bambang, the president's son, brought Steve Hanke, an American economics professor from The Johns Hopkins University, to meet Suharto to advise him that the simple answer to the low exchange value of the rupiah was to install a currency board." This bit of misinformation was a surprise, since I have never had any contact with Bambang Suharto. But it is not just politicians who fail to "fact check" their assertions. Theodore Friend's 2003 tome, *Indonesian Destinies*, misspells my name and then proceeds to say that I "counseled the [Suharto] family to peg the exchange rate at 5000."

Setting the record straight has been complicated by the official spinners at the IMF. Indeed, they have been busy as little bees rewriting monetary history to cover up the IMF's mistakes, and Indonesia represents one of its biggest blunders. To this end, the IMF issued a 139-page working paper "Indonesia: Anatomy of a Banking Crisis: Two Years of Living Dangerously 1997–99" in 2001. The authors include a "politically correct" version of the currency board episode asserting, among other things, that I counseled President Suharto to set the rupiah-dollar exchange rate at 5000. This pseudo-scholarly account, which includes 115 footnotes, fails to document that assertion because it simply cannot be done. That official IMF version of events also noticeably avoids referencing any of my published works or interviews based on my Indonesian experience.

To add a bit of color to the Indonesian episode, it is worth noting that, early on and during one of our nightly meetings in his little den at his residence, Suharto surprised me by stating that he had good intelligence that I was a marked man. He informed me that two foreign services wanted me out of the picture. In consequence, Suharto assigned part of his personal security detail to look after Mrs. Hanke and me on a 24/7 basis. Two ladies were assigned to Mrs. Hanke and usually three or four young men watched after me. The next time we received this "marked man" treatment was in Montenegro in 1999.

C. *Documents* – Hanke, Steve H. "[Q & A / Steve Hanke : Voice of Suharto's Guru.](#)" Interview by Stephens Broening. *International Herald Tribune* 20 Mar. 1998.

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6. Argentina, Again (1999)

President Menem proposed dollarization in January 1999, as he had first done on my advice in 1995.

A. Position – Given my long association with President Menem, which included an official position as Advisor to the Minister of Economy in 1995-96, Menem invited me to prepare a dollarization blueprint after Brazil's January 1999 devaluation. I presented my blueprint to him later, on February 13th in Buenos Aires.

B. Comment – President Menem's advocacy of dollarization put the issue on the radar screen in Latin America, and in part, was responsible for the adoption of official dollarization in Ecuador (2000) and El Salvador (2001). I do not know why President Menem failed to pull the trigger on dollarization in 1999. I think, however, that he thought that just the threat of dollarization would do the trick, as it had done in 1995. Indeed, speculation against the peso subsided shortly after Menem made a credible dollarization threat in 1995. But, the political and economic situations were much different in 1999 than in 1995. That said, dollarization was feasible in 1999 and would have worked. It would have allowed Argentina to avoid the currency chaos and ensuing devaluation and default that resulted from Argentina's flouting of orthodox currency board rules, something that was allowed under the Convertibility Law.

C. Document – Hanke, Steve H. and Kurt Schuler, "[A Dollarization Blueprint for Argentina](#)", *Friedberg's Commodity and Currency Comments Experts' Report*, Toronto: Friedberg Commodity Management, Inc., February 1, 1999.

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7. Venezuela (1995-96)

A. Position – I was an Advisor to the Fondo de Inversiones de Venezuela, where I operated as President Caldera's adviser on currency reform.

B. Comment – The debate in the Caracas press about the prospects for a Venezuelan currency board was surprisingly emotional, if not nasty. The temperature of the discourse rose dramatically, and the quality became, quite frankly, below critique after the Venezuelan President, the late Rafael Caldera, indicated that he was leaning towards a currency-board reform along the lines that I had suggested. The feature that was unusual was that a great deal of the *ad hominem* came from the educated chattering classes. I think their problem was the simple fact that President Caldera was seriously considering a significant currency reform that had not been designed by a local.

This episode taught me that a currency reformer should always watch his backside, even when taking a Sunday stroll. During our first trip to Caracas, Mrs. Hanke and I decided that a good long walk through Caracas' city center at midday on Sunday, when there was no traffic, was a great idea. Any informed person would have known that this was a terrible idea – one fraught with danger. Sure enough, shortly after we began our Sunday stroll, we were mugged by two young thugs who worked me over a bit with a broken bottle. We made it back to the Hilton Hotel, where a first-rate plastic surgeon stitched me up.

This episode proved to be a great embarrassment for President Caldera. By the next morning, before I addressed the students and faculty of the Instituto de Estudios Superiores de Administración (IESA), I learned that all the usual suspects had been rounded up and were behind bars on the President's orders.

C. Documents – Hanke, Steve H. and Kurt Schuler. [Juntas Monetarias para países en desarrollo: Dinero, inflación y estabilidad económica](#). 1st ed. Caracas: Cedice Libertad, 1995.

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8. Jamaica (1995-96)

A. Position – I had no official position. However, I was an advisor on currency reform to the Private Sector Organization of Jamaica in 1995-96. As a result, the CBS and dollarization options were hotly debated, and today dollarization remains in the picture.

B. Comment – To this day, I am a guest on Jamaican talk radio programs (a means of communication that has been quite popular in Jamaica for decades). I also occasionally contribute to the Jamaica Observer, a daily newspaper.

The most recent change in exchange-rate regimes in the Caribbean region occurred on January 1, 2011, when the Netherlands Antilles was dissolved. In consequence, the three small islands of Bonaire, Saba and Saint Eustatius adopted the U.S. dollar, while Curaçao continues to use the Netherlands Antilles guilder, which is pegged to the U.S. dollar. These events, if nothing else, have motivated, yet again, another dollarization discussion in Jamaica.

C. Document – Hanke, Steve H and Kurt Schuler, [Alternative Monetary Regimes for Jamaica](#). Kingston: *Private Sector Organization of Jamaica*, 1996.

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