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# REMEMBRANCES OF CU, 1960-1969

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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 Desarollo* (2015), *Currency Boards for Developing Countries: A Handbook* (2015), and مروري بر ادبيات تاريخی جريانهاي غيراصلی پولی هيئتهای پولي (2018).

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

Remembrances of CU, 1960-1969

By

Steve H. Hanke

I, an Iowa farm boy, enrolled as a freshman at CU in 1960. My first encounter with formal economics was during my first semester, when I took a course on European economic history taught by Ragaei El Mallakh. All I can remember from that course is that El Mallakh trumpeted Schumpeter in every class. The last time I saw Ragaei was during a trip that Mrs. Hanke (Liliane) and I took to Boulder shortly before Ragaei met the Grim Reaper in 1987. It was my last visit to Boulder – one that included a dinner at the Red Lion Inn, which Fred and Nancy Glahe and Ragaei and Dorothea El Mallakh hosted.

In 1964, I received a B.S. in Business Administration with an emphasis in marketing. The professors of marketing were distinguished. Most had written the best-selling texts in their specialties. In those days, marketing at CU was very tilted towards what today would be called behavioral economics. I also took all the real estate courses offered. They were taught by Maurice Unger, a best-selling textbook author and subsequent close friend. Maurice was my main undergraduate mentor and the one who advocated graduate studies in economics.

After graduation, I took a year off from studies, working odd jobs and trying to figure out what to do. In the 1965-66 academic year, I began my graduate studies in economics. In August 1969, I received my Ph.D. and was off to Johns Hopkins, where I have been a Professor of Applied Economics ever since. And, thanks to my training at CU, I am proud to say that I am the fastest to go from Ph.D. to Full Professor in Hopkins' history. In the early 1970s, I joined the faculty of the University of California at Berkeley, but much preferred Hopkins and returned after one year.

During my graduate studies, the students were, by-and-large, very collegial and competitive, and the professors were outstanding. They, particularly the younger ones, were also quite collegial and mixed with the graduate students. Fred Glahe, who arrived on the scene the same year I began my graduate studies, and I spent many a Saturday antique hunting. I still have one of the clocks (circa 1900) we purchased on the mantle in our dining room.

What made CU unique was that, whatever the field, all instruction began with a strong dose of history of thought. For example, Reuben Zubrow, one of CU's great pedagogues, started public finance from, well, the start. George Zinke taught formal history of thought, a field that was required for comprehensive exams. I also audited Ken Boulding's course every term, but Ken limited his course to *The Wealth of Nations*, if I may use the term "limited" to refer to either Ken or *The Wealth of Nations*. After all, it was in that course that Ken pronounced, as an aside, that there is nothing more important than a balance sheet. That aside has become my motto. The appreciation for original sources that was instilled during my graduate studies has served me well.

At the start of my second year of graduate work, I was scheduled to be the head T.A. But, a few weeks before classes began in September, Morris Garnsey, who was the Chairman, called me in and announced that a full-time faculty position had opened up at the Colorado School of Mines. It turns out that Jack Gore, a CU Ph.D. and professor at Mines, had had a massive heart attack and didn't make it. Mines was desperate. I told Garnsey that three courses per term would kill me. I was only a second year student and was taking a full load of graduate courses. Garnsey listened and finally said, "Steve, you can do it, plus you will learn a lot of economics." Well, Nietzsche was right, "that which does not kill us makes us stronger."

Mines was a terrific opportunity and experience. During my tenure (1966-69), I taught the first courses in Mineral Economics and Petroleum Economics offered at Mines. I edited two books on petroleum economics. These books gave me the opportunity to be mentored by Morry Adelman of MIT, one of the greatest petroleum-mineral economists of the 20th century. My experience at Mines has stuck with me to this day. Indeed, I serve on the Supervisory Board of the Advanced Metallurgical Group in Amsterdam, where – at least according to the *Wall Street Journal* – things I learned many moons ago at CU and Mines have paid off.

Before AMG, there was another bit of good fortune that came my way – a Garnsey-type opportunity that he taught me never to pass up. In 1985, I joined Friedberg Mercantile Group in Toronto, where I am Chairman Emeritus. Shortly after I arrived, I modeled the oil market with the kind of plain vanilla model I had learned at CU. I was convinced that OPEC would collapse and that crude would plunge to below $10/bbl., which it did. In consequence, we were short crude and gas-oil in every way possible, controlling about 70% of the short interest in the gas-oil contract in London. We were also short the Saudi riyal and the Kuwait dinar. All our ships came into port. I was a rock star – for a day. After all, markets are about tomorrow, not yesterday. There have been many other big trades. One occurred in 1995. It was then that Toronto Trust Argentina in Buenos Aires, where I served as President, was the world's best performing fund (+79.25%).

But, I am getting a bit ahead of the story. Let's go back to my dissertation. It was an event study. I measured water consumption before and after water meters were installed in Boulder. Morris Garnsey and Fred Glahe were my advisers from economics and Ernie Flack served from civil engineering. My work showed that metering had a dramatic impact on use, and taught me the value of primary data. Back in those days, I had to spend most of one summer going through all the meter books and transferring the data onto IBM punch cards. No spreadsheets back then. In any case, I "familiarized" myself with the data, as Ken Boulding liked to tell me. Since then, I have been a devotee of primary data.

Working with Glahe taught me the importance of paying the most careful and anxious attention to detail, as well as the imperative of producing work that can be replicated.

My dissertation was funded by Resources for the Future, Inc. Chuck Howe was the RFF grant administrator. This was before CU was fortunate enough to attract Chuck. The dissertation also landed me a position at Hopkins, with joint appointments in the Department of Environmental Health and Engineering and Department of Economics. And here Chuck enters the picture again. Chuck and Pierce Linaweaver (Hopkins) had written the pioneering study of urban water demand, which was published in 1967. Linaweaver was leaving Hopkins, and Hopkins wanted to carry on the Howe-Linaweaver water demand research program. As they say, “the rest is history”. And what a history in water resources it has been.

Over the years, I have been an economic adviser to a number of engineering firms and many water companies, most notably Lyonnaise des Eaux and Compagnie Générale des Eaux in Paris. These collaborations have afforded me the good fortune of working with some of the world’s most important engineers in the water field, including Messrs. M.J. Tixeront and M.F. Valiron in Paris. And when I mention Paris – where Liliane (a Parisian) and I reside part-time – I cannot do so without mentioning my work at the great École Nationale des Ponts et Chaussées.

My last major water-related activities were almost 35 years ago, when I served as a Senior Economist on President Reagan’s Council of Economic Advisers. I was a member of what were, in those days, called White House cabinet councils, where I was responsible for both the water resources and privatization portfolios. Reagan took great interest in my work on water and, more broadly, privatization.

One of my early initiatives on water, which Reagan backed, was the advocacy of the private provision of urban water. This advocacy was based on my research of the French methods for organizing the provision of water.

My other White House activities in the water field revolved around benefit-cost analysis. I represented the White House in a revision of the "Federal Principles and Standards", which were used to evaluate water projects. In addition, Reagan ordered the Department of the Interior to submit all their proposed water projects to me for either a thumbs up or thumbs down. On my watch, no projects were approved. This provoked Interior Secretary Jim Watt, who called for my head. Thanks to the President, I never went to the guillotine.

With the fall of Communism, another set of Garnsey-type opportunities arose. Indeed, with the "fall" came hyperinflations. Of the world's 58 episodes of hyperinflation (over 50%/mo.), I have either anticipated or helped stop 28 of them. My work has been conducted in official capacities, ranging from the position of State Counselor (a Cabinet rank) in Lithuania and Montenegro to an adviser to presidents and prime ministers in 10 countries.

For most post-communist (and other emerging market) countries, central banks are a curse. The alternatives – orthodox currency boards or "dollarization" – produce more fiscal discipline, lower inflation, and higher real growth rates. I have written over 20 books on these alternatives and 100s of articles, including proof that Argentina's Convertibility System was not a currency board. The experiences have been most gratifying. Following my work as President Suharto's chief adviser during the Asian Financial Crisis, I was named by *World Trade Magazine* one of the 25 most influential people in the world in 1998. On the academic side, my currency reform scholarship has resulted in seven Doctorates *honoris causa* and three honorary professorships.

This work has also been eventful. I recount one episode for color. I served as a State Counselor and Advisor to the President of the Republic of Montenegro (1999-2003), where I determined that the replacement of the hyperinflating Yugoslav dinar with the German mark was both feasible and desirable.

In 1999, Montenegro was still part of the Federal Republic of Yugoslavia, along with Serbia. Strongman Slobodan Milosevic was the President of Yugoslavia. On November 2, 1999, Montenegro's President Milo 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 Milosevic. I became a marked man – literally. 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.

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, with the help of Senators Steve Symms and Trent Lott, Djukanovic and I made a case for Montenegro's currency reform at the U.S. Capitol. The United States ended up supporting Montenegro's currency reform.

Now, let's return to Boulder. While I gained a great deal from all the courses I took as a graduate student, one professor was in a league of his own when it came to pedagogy. That was Zubrow. When teaching, I strive to get up there with the Star, and Bloomberg and others think I am getting there: "This Johns Hopkins Professor Can Guarantee You a Job in Finance."

It's been a long journey, but with each passing day, the road always intersects with my days at CU.

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