Studies in Applied Economics

PROF. DR. STEVE HANKE: IN 1997-2001 PRIVATIZATIONS IN BULGARIA WERE DIRTY

EXCLUSIVE INTERVIEW WITH LYUBOMIRA BUDAKOVA, EDITOR-IN-CHIEF OF THE MONITOR

Steve H. Hanke
Prof. Dr. Steve Hanke: In 1997-2001 Privatizations in Bulgaria Were Dirty

Exclusive Interview with Lyubomira Budakova, Editor-in-Chief of the Monitor
Sofia, Bulgaria

By Prof. Dr. Steve H. Hanke

About the Series

The Studies in Applied Economics series is under the general direction of Prof. Steve H. Hanke, Founder and 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 and his wife, Liliane, reside in Baltimore and Paris.
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- Enterprises in Europe and America were complaining that it was impossible to do business because of pervasive corruption
- The Chief Prosecutor will face a Sisyphean task when reviewing the past privatizations
- There are two great, world-class institutions in Bulgaria - the currency board, and the Sofia Opera

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Research Institute in Beijing, and Special Counselor to the Center for Financial Stability in New York. In 1998 he was named one of the twenty-five most influential people in the world by World Trade Magazine.


In Bulgaria he is widely known as the “father of the currency board.” From 1997 to 2001 he was adviser to the former President of Bulgaria Petar Stoyanov.

Prof. Steve Hanke gave an exclusive interview for “Monitor.” The interview was conducted in writing.

Budakova: Prof. Hanke, in an interview you gave to the Bulgarian bTV a week ago you revealed that during the government of Ivan Kostov you brought to the then President of Bulgaria Petar Stoyanov a briefcase “full of documents, proving corruption” in the government. What exactly was in the briefcase? Who did the evidence expose and was it “nailing” Ivan Kostov himself? We have repeatedly tried to contact Petar Stoyanov to ask him the same questions, but he did not answer any of our calls. So, it depends on you to shed light on the subject by providing the Bulgarian society with more details.

Prof. Hanke: After the currency board had killed Bulgaria's hyperinflation and stabilized the economy in 1997, I advised former President Stoyanov that corruption was Bulgaria’s number one problem. This, of course, was nothing new. The Communist legend that Todor Zhivkov’s regime and all the rest of them were as clean as a hound’s tooth is total fiction. In any case, Stoyanov agreed with my assessment and was on the side of fighting corruption. But, without evidence, he said his hands were tied.

At that point, I informed Stoyanov that enterprises in Europe and America, knowing me and that I was his adviser, were complaining that it was impossible to do business in Bulgaria because of pervasive corruption. I responded to them by repeating what Stoyanov had told me: nothing can be done without evidence.

This brings us to my briefcase. One business, beyond simply complaining, actually supplied me with documents and evidence. I turned those over to Stoyanov. What the documents exposed and their relevance are questions that must be addressed by the Bulgarian authorities. As for "nailing" former P.M. Kostov, he was the head of the government, and he
was the one who Stoyanov telephoned in the presence of Mrs. Hanke and me. So, that is how Kostov naturally and with precision entered the picture.

**Budakova:** The Chief prosecutor’s office announced on Monday that it had initiated a preliminary investigation for suspected high-level corruption during the government of Ivan Kostov. According to the communication, issued by the prosecution, the preliminary investigation is based on the facts you have given in your interview with bTV. It also says that you will be invited to give testimony. Will you testify and will you provide the evidence you gave to Petar Stoyanov? Given the fact that the prosecution ordered a full review of the entire privatization process a couple of weeks ago, do you think that the truth will finally come out?

**Prof. Hanke:** I will, of course, be pleased to speak to the Chief Prosecutor. When it comes to government corruption, my motto has always been that no stone should be left unturned.

I am aware that the Chief Prosecutor is engaged in a full review of past privatizations to determine how clean they were. I think the prosecutor will face a Sisyphean task. There is a mountain of evidence that supports my conclusion. First, past attempts to roll back corruption in Bulgaria have failed. According to Transparency International, Bulgaria ranks dead last in terms of corruption in Europe. Bulgaria is even worse than Romania. The World Bank’s Worldwide Governance Indicators also puts Bulgaria at the bottom of the barrel when it comes to corruption.

Why has Bulgaria failed to stomp out corruption? One problem is the fact that Bulgaria has virtually no laws that protect “whistleblowers”—those who expose corruption. So, the channels to report corruption are not safe. Not surprisingly, Bulgarians tend to keep their mouths shut.

In addition, in a recent survey by Transparency International, 73% of Bulgarians said that it wouldn’t make any difference even if they did blow a whistle on corruption. Why? Bulgarians have little trust in their politicians and the country’s legal system. And, the Bulgarian public is right. International rankings uniformly place Bulgaria in a terrible, lowly position, particularly when it comes to the independence of judges and the impartiality of courts. That explains why Bulgaria’s judicial system is still monitored by the EU Cooperation and Verification Mechanism. It also explains why the United States recently imposed sanctions on the Bulgarian judge, Andon Mitalov.
Budakova: Ivan Kostov gave an interview to bTV in response to your words. He claimed that you were attacking him because he gave a blow to your ego by saying that you were not the “father of the currency board in Bulgaria”. Is that really the case?

Prof. Hanke: Ivan “Mr. Clean” Kostov’s bTV interview was little more than a flood of words without one drop of reality. As for the attribution that was given to me many years ago in a well-researched article in Trud, allow me to suggest that Kostov learn how to read documents. The first document that mentioned the words “currency board” and “Bulgaria” was a monograph in English that I co-authored with Dr. Kurt Schuler, Teeth for the Bulgarian Lev: A Currency Board Solution. It was published by the International Freedom Foundation in Washington, D.C. in 1991. Subsequently, Schuler and I published two books on a currency board for Bulgaria—one in 1996 and another in 1997. These were published in Bulgarian in Sofia. I was told that our 1996 book even reached the best sellers list in Sofia.

In any case, Kostov, even though he seems to be totally obsessed with attributions, should relax. My response to the question Svetoslav Ivanov raised about the Chief Prosecutor’s corruption investigation in our bTV interview was nothing more than a straightforward answer to a question about corruption that no one had ever bothered to ask me before. My response had absolutely nothing to do with Kostov’s views about an attribution that Trud gave me many years ago. Do I actually care what Kostov’s subjective views are? I like to just stick with facts and documents.

Budakova: Mr. Kostov claimed also that neither him, nor his family was part of the privatization schemes, which embezzled billions of public money. Was that really so?

Prof. Hanke: That’s a question for the Chief Prosecutor to answer. Not me.

Budakova: You have been counselor to presidents and prime ministers of countries all around the globe, including to governments of former socialist republics. Can you compare the privatization process there to the Bulgarian one? Have you witnessed such overwhelming scope of corruption anywhere else?

Prof. Hanke: Before I answer your question, allow me to state that I have been a long-time advocate of clean and total privatization. I was the first U.S. official to use the word “privatize,” and Mrs. Hanke, who is French, and I had that French word placed in Webster’s English Dictionary. In the scholarly sphere, I have written books on privatization. These have been published in several languages, and I wrote the entry for “privatization” in the authoritative The New Palgrave: A Dictionary of Economics.
To answer your question, I will limit myself to a few countries where I have had deep first-hand experience. I will use three subjective rankings: (1) Clean, (2) Variable, and (3) Dirty. In the early 1980s, I was responsible for designing all of President Ronald Reagan’s initial privatization programs. They were all clean. After I left the White House, I was involved in the management of investments in Chile’s pioneering private social security system. Chile’s privatizations were also clean. Then, there was Argentina, where I was the President of Toronto Trust Argentina in Buenos Aires, the world’s best performing fund in 1995. Argentina’s privatizations were variable. Next was New Zealand, where I was president of FCMI NZ Financial Corp. New Zealand had a big privatization program that was initiated by my good friend Sir Roger Douglas. New Zealand was very clean. Then, we come to Bulgaria. During my years as Stoyanov’s adviser (1997-2001), privatizations were dirty.

Budakova: In your opinion, what was the precise financial damage, both direct and indirect, for the Bulgarian society from the privatization?

Prof. Hanke: I have not done any sharp pencil work that would allow me to answer your question with numerical precision. As I have indicated, even way back in 1997-98, I let Stoyanov know that I thought corruption was Bulgaria’s number one problem. While you can calculate simple things like the difference between the amount of money that a privatization generated and the amount that actually ended up in the treasury, it is the reputational damage associated with corruption that is important and incalculable.

Budakova: The privatization and its corrupt practices led to corrosion of the institutions, including the judiciary system and created economic circles, run by oligarchs, which have been embezzling public resources for years. Was this just a “collateral damage” or rather part of a bigger plan to create a captive state? If so, who created the plan and who did it serve? What was the role of Ivan Kostov in your view? In short – whose game was it and who were (are) the players?

Prof. Hanke: Your question is excellent, but totally overwhelming. Anyone who could answer it should be awarded a Nobel Prize.

Budakova: “Today, there are two great, world-class institutions in Bulgaria - the currency board, and the Sofia Opera”. These are your words. What made you tweet them?

Prof. Hanke: Focus Economics in Spain ranks the world’s top 75 economic influencers. Those rankings are based on Twitter. At present, I am ranked the 5th most influential
economist in the world. Among other things, I use what influence I might have to promote ideas and institutions that I deem to be great and beneficial.

One of the things Mrs. Hanke and I did when we first visited Bulgaria many moons ago was attend the Sofia Opera. Even though the opera house was in terrible shape, the Opera was terrific. Ever since, we have tried to promote Sofia’s Opera. I also promote Bulgaria’s currency board. As for why the tweet on my two favorites, you have to strike while the iron is hot.

Budakova: You claim that Bulgaria should stick to the currency board and should not join the eurozone. This is a bit surprising given the fact that you were State Counselor of the Lithuanian’s currency board as well. Lithuania is now a member of the eurozone, and its membership is considered a success story. Why shouldn’t Bulgaria follow the same path?

Prof. Hanke: I apologize for surprising you. I never like to surprise. In Lithuania, I designed the currency board, which was installed in 1994. It obviously looked very much like Bulgaria’s and it performed to perfection, like Bulgaria’s.

But, Lithuania is a totally different breed of cat than Bulgaria. Lithuanians are extremely leery— to the point of paranoia—about the Russian Bear. Any move that Lithuania thinks moves them further from the Bear garners widespread public support. Since the adoption of the euro was viewed by the Lithuanian public as something that would move Lithuania further away from the Bear’s paw, the euro was adopted. Importantly, it was adopted without any Stoyanova-type changes in the Bank of Lithuania’s law. And importantly, there were absolutely no discussions about allowing the litas to fluctuate relative to the euro once Lithuania entered the ERM II waiting room.

Budakova: You have been following closely the situation in Bulgaria over the years. If there is any other topic that you would like to address, I would gladly discuss it with you.

Prof. Hanke: I do follow Bulgaria carefully. I must, because I am a Member of the Euromoney Country Risk’s Experts Panel in London. And, Bulgaria is one of the 15 countries that I assign a credit risk rating to each quarter. As I follow the discussions about the possibility of Bulgaria giving up the currency board and lev and replacing it with the euro, I am struck by how fundamentally undemocratic the process is. There is a small group of technocrats in Frankfurt who instruct a small group of technocrats in Sofia as to what they are supposed to do. With those orders, Sofia snaps to attention and marches to Frankfurt’s drumbeat. But, the Bulgarian public has no idea what is going on. Perhaps that is why more
than 50% of the Bulgarian public supports the currency board and the lev, while only about 25% support the adoption of the euro. The Bulgarian public clearly does not like to be kept in the dark. Moreover, the Bulgarian public is smart enough to know that you never should try to “fix” things that aren't broken. I think that P.M. Borisov is a master of taking the public’s pulse. His most recent statements on slowing Bulgaria’s headlong rush into a mysterious ERM II waiting room confirms that he has no intention of going against public opinion.

But, even a master can get tripped up when given poor advice. Last week, Borisov stated that €10 billion of “free money” would be released if the currency board and lev were replaced by the euro. He asserted that this free money would be used for beneficial things, like transportation infrastructure, pensions, wages, and innovations. Not so fast, Mr. P.M. Didn’t your advisers inform you that entry into the eurozone will require foreign exchange reserves to be shipped from Sofia to Frankfurt, where they will no longer be solely controlled by Bulgaria? Just take look at Lithuania: as a condition of its eurozone entry, it transferred €544,162,628 from Vilnius to Frankfurt.

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