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PROF. DR. STEVE H. HANKE'S EXCLUSIVE INTERVIEW WITH DANIELA YAKOVA OF BULGARIAN NATIONAL RADIO'S MOST LISTENED TO "HORIZONT" CHANNEL, 12+3 PROGRAM

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



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National Radio's Most Listened to "Horizont" Channel, 12+3 Program**

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 the *National Review*. 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 ECAEF 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 serves as 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) and *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 *Gelişmekte Olan Ülkeler İçin Para Kurulları El Kitabı* (2019).

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

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Yakova: First of all, congratulations to Professor Hanke on your recently achieved rank of 4th on Focus Economics' list of the top 75 Economic Influencers in the World to Follow.

As you say, your contribution is to be the global economic "fireman" -- wherever in the world there is a crisis, you are the first to appear and offer the right tools to dramatically improve the situation. Your work reaches much farther than being known as the father of Bulgaria's currency board.

Many people say that the world will never be the same in the post-coronavirus era. What do you think about that refrain?

Prof. Hanke: With the onset of the coronavirus, the world has become engulfed in the largest crisis it has faced since World War II. And, with each crisis—large or small—there is always an overwhelming public outcry for the government to do something. It makes no difference whether government policies and actions caused the crisis in the first place

or whether governments failed to mitigate the damages generated by the crisis; the response is always the same: we need to expand the scope and scale of government. The expansions take many forms, but they all result in an increase in the exercise of power by government over society and the economy. These “power grabs” often remain long after the crisis has passed. Indeed, each crisis carries with it a ratchet that ratchets up the scope and scale of the State’s power. And with that, life becomes more under the control of the State and an inner ring of bureaucrats.

So, with each crisis since World War I, we have seen massive increases in the politicization of life. There is a pervasive tendency for making all questions political questions, all issues political issues, all values political values, and all decisions political decisions.

My mentor and good family friend, the late Nobel laureate Friedrich von Hayek put his finger on the long-run problem that will come with the new world order. As Hayek put it: “Emergencies have always been the pretext on which the safeguards of individual liberty have been eroded.”

Yakova: Can you give me some examples of what you mean by “power grabs” and the “ratchet effect?”

Prof. Hanke: There is no better example of power grabs and the ratchet effect than with the International Monetary Fund. Established as part of the 1944 Bretton Woods agreement, the IMF was primarily responsible for extending short-term, subsidized credits to countries experiencing balance-of-payments problems under the postwar, pegged-exchange-rate system. In 1971, however, Richard Nixon, then U.S. president, closed the gold window, signaling the collapse of the Bretton Woods agreement and, presumably, the demise of the IMF’s original purpose. But, since then, the IMF has used every so-called crisis to expand its scope and scale.

The oil crises of the 1970s allowed the IMF to reinvent itself. Those shocks required more IMF lending. And, more lending there was: from 1970 to 1975, IMF lending more than doubled in real terms.

With the election of Ronald Reagan in 1980, it seemed the IMF’s crisis-driven opportunism might be reined in. Yet, with the onset of the Mexican debt crisis, more IMF lending was “required” to prevent debt crises and bank failures. That rationale was used by none other than President Ronald Reagan, who personally lobbied 400 out of 435 congressmen to obtain approval for a U.S. quota increase for the IMF. IMF lending ratcheted up again,

increasing 27% in real terms during President Reagan's first term in office. The IMF is like a hydra. With every crisis, it invents some new rationale to grab more power and money in the alleged interest of preventing yet another crisis.

National governments are experts at power grabs, too. For example, until August 1914, every sensible law-abiding Englishman could pass through life and hardly know the existence of the State beyond the post office and policeman. As we all know, with each passing crisis, the State in Great Britain has spread its wings further. Today, all we hear from London is propaganda about how Britain's "Nationalized Health Service" is "protecting" the British public from the coronavirus.

When we move to Bulgaria, Prime Minister Borisov has used the coronavirus crisis for classic power grabs. For example, after being caught trying to pull the wool over the Bulgarian public's eyes and making a mad dash into the ERM II waiting room with the Stoyanova Amendment in his hands, Borisov concluded that the dash might be dangerous. He determined that the Bulgarian public has an allergy for wool. So, he postponed the dash into the waiting room until July by which time he anticipated the Bulgarian public would loosen its embrace of the currency board and its beloved lev. Then, the crisis arrived. And, shockingly, one of the prime minister's first moves had nothing to do with protecting the public from the coronavirus. Again, he made a mad dash for the ERM II waiting room.

Yakova: You have had such a distinguished and long career during which you have advised leaders of many countries on pressing issues. What is your advice to leaders for how to deal with the impact of the coronavirus pandemic?

Prof. Hanke: My advice starts with something I learned when I served on President Reagan's Council of Economic Advisers. Jim Baker was the White House Chief of Staff at the time, and Baker stressed the 5 Ps: prior preparation prevents poor performance. Whether in business or government, the embrace of the 5 Ps allows one to survive in an uncertain, turbulent world. Specifically, one has to build institutions that have resiliency and absorptive capacity. This allows one to handle the potential downside and negative consequences of uncertainty and crises. Those institutions should also be built to be agile so that the potential upside associated with uncertainty and crises can be captured.

As an example of what I have in mind, look to Singapore. Since its difficult birth in 1965, Singapore has been transformed from a destitute, malaria-infested island into a first-world, financial powerhouse. It's all thanks to Lee Kuan Yew's small-government, free-

market vision and his embrace of the 5 Ps. As a result, today, Singapore is one of the world's top free-market economies with a small, non-corrupt, and efficient government.

Not surprisingly, Singapore has been able to absorb the blows thrown by the coronavirus much better than most countries.

Yakova: Speaking of leaders, was President Donald Trump right in holding WHO responsible for the spread of the virus and right to cut their share to WHO?

Prof. Hanke: Well, your question is a bit of an exaggeration. President Trump has not put the entire blame for the spread of the coronavirus on the WHO. His position is that the WHO has totally mishandled the pandemic and has acted as a mouthpiece for the Chinese Communist Party. It's rather clear that Dr. Tedros and the WHO have put pleasing the Communists in Beijing above the WHO's stated public health mission. The WHO is just another heavily politicized and bloated international bureaucracy. The WHO should have been mothballed and put in a museum long ago.

Yakova: How do you see the American response to the pandemic? Was the President late in taking action, as alleged by his critics?

Prof. Hanke: In a crisis, time is your enemy. For maximum effectiveness, one has to act decisively, boldly, and rapidly. President Trump did not do so. But, he is not alone. Many governments have been even slower. One reason for this is that China hid what was going on in Wuhan from the world for a long time, and the WHO covered up for Communist China's sins of omission. Even today, China is not reporting data on its testing.

Yakova: What's your view about the shape the international monetary system will take after the crisis?

Prof. Hanke: Monetary instability poses a threat to free societies. Indeed, currency instability, banking crises, soaring inflation, sovereign debt defaults, and economic booms and busts all have a common source: monetary instability. Furthermore, all these ills induced by monetary instability bring with them calls for policy changes, many which threaten free societies. I offer three regime changes that would enhance the stability in what my good friend Jacques de Larosière has asserted is an international monetary "anti-system." First, the U.S. dollar and the euro should be formally, loosely linked together. Second, most central banks in developing countries should be mothballed and replaced by currency boards. Third, private currency boards should be permitted to enter the

international monetary sphere. The prospect of private currency boards—which are backed by fiat currencies, baskets of currencies (like SDRs) or gold—appear to be a promising reality. The competitive forces that will be unleashed by the private alternatives would be a great stabilizer and enhance economic freedom and free societies.

Yakova: The storm with your briefcase -- why did you tell us about this now and not before? Former Prime Minister Ivan Kostov has denied what you have said.

Prof. Hanke: I spoke specifically about the contents of my briefcase and my transmission of the documents to President Stoyanov now simply because no one had bothered to ask me the question before it was posed on BTV's 120 Minutes program. Ivan "Mr. Clean" Kostov can say whatever he wishes to say. I will say what I have to say to the Chief Prosecutor's office when I have the opportunity. And, I will leave it up to the Chief Prosecutor to determine the veracity and relevance of my evidence as he continues his investigation into the corruption surrounding Bulgaria's privatization programs.

Yakova: Bulgaria is again readying itself to abandon its currency board, which you helped to establish, to formally join the eurozone. We know what your opinion has been over the years. Has it changed in light of the coronavirus pandemic?

Prof. Hanke: Watching Bulgaria's desperate dash to the ERM II waiting room has been like viewing a farse. The government has given one false reason after another for wanting to enter. But, the big lie has always been the same. The government and the euro advocates have always advertised that there is a pot of gold in Frankfurt. And, it's all waiting for Bulgarians to put their hands on. All Bulgaria has to do is abandon the currency board and lev, and the fortune will be Bulgaria's. This is, of course, nonsense. All members of the European Union, such as Bulgaria, participate in whatever fiscal benefits the EU might offer up. Being a formal member of the eurozone and adopting the euro are not preconditions required for participation in the EU's fiscal largess.

Bulgaria's money and banking system is already the beneficiary of the eurozone and whatever benefits the euro offers. Indeed, the lev is a clone of the euro, and 75% of the banks in Bulgaria are either subsidiaries or branches of EU banks. So, Bulgaria is already de facto in the eurozone. The big lie has been on full display during the coronavirus crisis. For example, Borisov and Goranov have gone on and on about the need for the Bulgarian National Bank to obtain a so-called swap line to receive credits from the European Central Bank. Well, surprise! Bulgaria just received an ECB swap line. But, contrary to what the

Bulgarian public has been told, being in the waiting room, or almost in the waiting room, is not a precondition for being granted an ECB swap line. After all, the ECB already has swap lines with Sweden, Switzerland, the U.K., Hungary, Latvia, Poland, Denmark, and Croatia. And, none of these countries uses the euro. The swap-line story is just the most recent example of how Borisov and his Minister of Finance have played fast and loose with the facts.

Yakova: Now that the world economy is in a crisis, what are you actually doing? How do you spend your days and nights?

Prof. Hanke: My nights are pretty short. I now sleep for about 5 hours each night. The rest of the time, there is a great deal of action, which is now all carried out over the internet and via telephone. I have the good fortune to have Mrs. Hanke at my side. She is a brilliant geopolitical strategist who has endured every economic crisis with me. We discuss everything. It's very stimulating and a great pleasure, too. Since this crisis is at its center a medical one, I also have another secret weapon: my youngest daughter, who is a Professor of Medicine at Johns Hopkins, the greatest medical school in the world. It is always good to be surrounded by people with expertise and people who are smarter than you are. If this is not enough, I have 31 young, capable assistants who I am in constant contact with. To fight a war, you have to have firepower, and I have it. You also have to know how to use your firepower. To do that, I have learned that four things are required for success. First, in a crisis, time is your enemy. You must make decisions very rapidly. Second, you must lead aggressively with big, bold initiatives. Third, you must be able to communicate clearly just what you are doing and why. In short, you must be the master of the message. And fourth, you must ensure that whatever you have proposed can be implemented rapidly. The success that I have had in fighting economic crises rests, in large part, on being able to execute on these four points.

Specifically, and at present, as an alumnus of the White House, I am advising the current administration as well as members of the U.S. Congress. And, my advice is not limited to Washington D.C. but also involves countries in Europe, Asia, and Latin America.

On the commercial front, I am Chairman of the Advanced Metallurgical Group in Amsterdam. AMG is a mining and metallurgical company with 4,000 employees. We have mines and engineering operations in the U.S., Brazil, Mozambique, Sri Lanka, Germany, France, China, the U.K., India, Mexico, and the Czech Republic. Looking after these commercial activities takes a great deal of my time.

I have been trading commodities, foreign exchange, stocks, and bonds for over 65 years, and I am Chairman Emeritus at the Friedberg Mercantile Group in Toronto, the largest commodity trading house in Canada. What to buy and sell in the troubled times? That is a question I am asked many times each day. I am called from all corners of the world by bankers and traders who I have dealt with for many years.

If that isn't enough, and to divert my attention from the troubles and tragedies of the crisis, I am making the final edits on two book manuscripts before I send them off to be published. Editing is very tedious work. I can only do it for an hour or two each day. It is the kind of work that is good to do while I am confined to my home study.

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