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PROF. DR. STEVE H. HANKE'S EXCLUSIVE INTERVIEW WITH IVAN DJURDJEVIC, DEPUTY EDITOR IN CHIEF OF *BLIC* NEWSPAPER

BELGRADE, SERBIA

Steve H. Hanke

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

Prof. Dr. Steve H. Hanke's Exclusive Interview with Ivan Djurdjevic, Deputy Editor in Chief of *Blic* Newspaper:

Serbia's biggest problem is that all issues and all decisions are political

Belgrade, Serbia

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 Desarollo* (2015), *Currency Boards for Developing Countries: A Handbook* (2015), *Gelişmekte Olan Ülkeler İçin Para Kurullari El Kitabi* (2019), and دليل مجالس النقد في البلدان النامية (2020).

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

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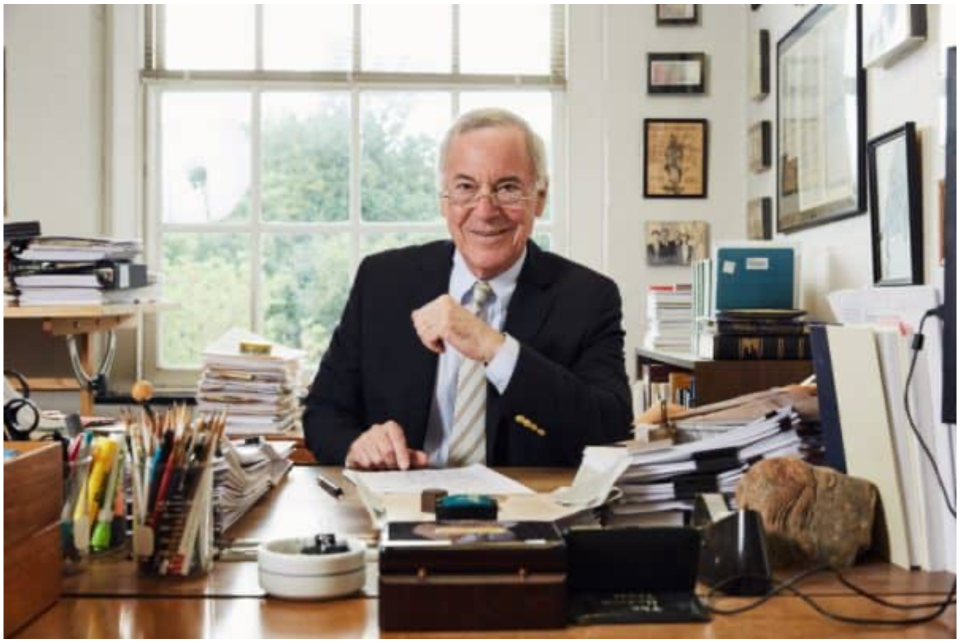

Serbia's obsession with geopolitics is one of its major problems. All issues are political issues, all values are political values, all decisions are political decisions. That is why Serbia is not going anywhere, says Professor Steve Hanke, one of the most influential economic experts of today, in an exclusive interview for "Blic."

According to him, the most important thing for the Serbian economy is a stable exchange rate. As an example of an ideal economic revival, he cites the case of Singapore, which went from a poor country to one of the richest countries in the world.

Djurdjevic: Together with Ante Markovic, you have found a difficult economic situation in the SFRY - wild inflation, huge public debt... With your economic program, however, you managed to stabilize the problems. What was the secret?

> **Prof. Hanke:** My journey to Yugoslavia began in late 1989, when my good friend Daniel Swarovski hosted a dinner for Mrs. Hanke and me in Vienna, Austria. It was then that I was introduced to Zivko Pregl, who was the Deputy Prime Minister of the SFRY and the

one primarily responsible for economic reforms during the Marković government years. During our meetings in Vienna, Pregl invited me to become his chief adviser for economic reform. Initially, I declined Pregl's invitation. But, eventually I received a telephone call from the White House. President George H.W. Bush wanted me to do him a favor, namely, to become Pregl's adviser. I agreed, and Mrs. Hanke and I arrived in Belgrade in January 1990.

From day one, I stressed the idea of the 5 Ps: Prior Preparation Prevents Poor Performance. I was introduced to the 5 Ps as a member of President Reagan's Council of Economic Advisers in the early 1980s. The message was conveyed to me by James Baker, III, who was Reagan's White House Chief of Staff at the time.

An example of a country that rigorously practices the 5 Ps is Singapore. The best example of a clean, lean and mean, and corruption-free government is Singapore's. If I was running the show in Serbia, I would adopt what I call the Singapore Strategy. That's exactly what I was pushing for the Socialist Federal Republic of Yugoslavia to do in 1990.

Singapore gained its independence in 1965, when it was, in effect, thrown out of Malaysia. At that time, Singapore was backward and poor — a barren speck on the map in a dangerous part of the world. If that wasn't enough, it was experiencing ethnic-based riots, which came close to igniting a civil war.

But, at its founding, Singapore had a leader, Lee Kuan Yew. He had clear ideas about how to modernize the country — a strategy which I have dubbed the "Singapore Strategy." This strategy contained the five following elements:

The first element was stable money. Singapore started with a currency board system — a simple, transparent, rule-driven monetary regime – one that I advocated for during my time as an adviser to the Marković government.

Currency boards operate on autopilot. Unlike a central bank, they cannot conduct monetary policies.

For Singapore, the currency board provided stable prices and free convertibility of the Singaporean dollar at a fixed exchange rate to the pound sterling. The Singaporean dollar was credible because the currency board required that it be backed 100% by pound sterling reserves. So, the Singaporean dollar was simply a clone of the British pound. This established discipline, stability, and confidence in the economy. Not surprisingly, it also attracted foreign investment.

As it turns out, the SFRY's biggest problem was its endemic inflation. From 1971-91, Yugoslavia's annualized rate of inflation was 76 percent; only Zaire and Brazil recorded higher inflation rates during that period. So, my first task was to design a system that would rid Yugoslavia of its inflation problem.

To do this, I designed and advocated a Singapore-like currency board system. The Ekonomski Institute Beograd, which, at the time, was headed by my 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 directed by another good friend, Ljubo Sirc.

Unfortunately, Yugoslavia didn't adopt a currency board, but rather, it retained its central bank, with all its powers to engage in monetary policies, and introduced a half-baked currency reform in which the Yugoslav dinar was pegged to the Deutschemark. I counseled against this, and predicted that this system would ultimately blow up, which it did. But, even that half-baked, pegged, exchange-rate system was enough to inject some stability and confidence into the economy for as long as it lasted.

The second element was that Lee Kuan Yew ruled out passing the begging bowl. Singapore refused to accept foreign aid of any kind. This is a far cry from many developing countries, like Serbia or the SFRY, where politicians and bureaucrats spend a great deal of time trying to secure foreign aid from someone, be it an NGO, a foreign government, or an international financial institution, like the World Bank or IMF. By contrast, signs reading "no foreign aid" were hung figuratively outside every government office in Singapore.

The third element was that Singapore strived to have first-world, competitive private enterprises. This was accomplished via light taxation and light regulation, coupled with completely open and free trade — in short, policies that enabled Singapore to become one of the Asian Tigers. These ideas were totally foreign in the FSRY back in 1990. Even today in Serbia, they are not well understood and have not taken root.

The fourth element in the Singapore Strategy was an emphasis on personal security, public order, and the protection of private property. Back in 1990, this critical element was nowhere to be found in the SFRY.

The fifth, and final, element in the Singapore Strategy was a "small," transparent government — a minimalist government that avoided complexity and "red tape." This element did not appear on any radar screen in Belgrade.

To execute the strategy with precision, Singapore appoints only first-class civil servants and pays them first-class wages. Today, for example, the Singaporean Finance Minister's annual salary is about 1.2 million euros. In exchange for these high salaries, the Singapore Strategy demands that the government runs a tight ship, with no waste or corruption. By embracing Lee Kuan Yew's Singapore Strategy of stable money, no foreign aid, first-world competition, law and order, and a government that is free of waste and corruption, Singapore has transformed itself from a poor, barren speck to a global financial center and one of the richest countries in the world.

As I reflect on your first question. I think we had some success during the first year of the Markovic government because a tiny bit of confidence was generated in anticipation of reforms. This happened because there was open discussion about implementing many of the elements of the Singapore Strategy that I had introduced into the government's agenda and also into the public's discourse.

But, by the start of 1991, it was clear to me that Balkan politics was smothering any hopes for the implementation of any of these proven Singapore-type ideas for Yugoslavia. Discussions turned away from economic reforms and toward what can best be described as political knife fights. As I look at Serbia today, I see much of the same picture.

Djurdjevic: Where would Serbian economy be today in relation to the EU, if there were no wars and conflicts and if there was a peaceful disintegration of the SFRY?

Prof. Hanke: If Serbia would have adopted a currency board like the one I designed and installed in 1997 in Bulgaria, where I was President Stoyanov's chief economic adviser, Serbia would have entered the EU in 2007. That is when Bulgaria entered. Incidentally, right after Bulgaria's entry, President Stoyanov told me that the currency board, which had made the lev as good as the Deutschmark and stabilized Bulgaria, was the main reason Bulgaria was allowed to enter the EU.

Djurdjevic: Many of your colleagues, such as Jože Mencinger, compared the EU to the former SFRY. If so, at what stage is the EU now?

Prof. Hanke: I think Jože Mencinger has a point, but a very small one. I think the nature of the glue that held the SFRY together for as long as it did was quite different than the EU's glue. Also, the forces that pulled the SFRY apart were much stronger than any so-called Balkanization forces that exist in the EU. The Balkans represent a unique breed of cat, one that is difficult to compare to anything found in Europe.

Djurdjevic: How do you comment on the fact that, today, the states of the former SFRY are together ten times more indebted than Yugoslavia in 1990?

Prof. Hanke: Since I don't know how you arrived at the precise multiple of the debt today being so high, I can't comment with any precision. I will simply say that the SFRY was addicted to debt. Indeed, it was living on a steady diet of debt. Your question suggests that the former Yugoslav lands are still addicted to and living off of debt.

The best way to control the debt trap is via the adoption of currency boards, like the ones I installed in Bulgaria and Bosnia-Herzegovina. Both of those countries have debt-to-GDP ratios that are some of the lowest in Europe.

Djurdjevic: How do you assess the economic reforms that have been implemented in Serbia in previous years? How beneficial is the method of first insisting on reducing pensions and salaries, and then on increasing investment and spending?

Prof. Hanke: The Serbian reforms have certainly not followed the Singapore Strategy that I was advocating for the SFRY back in 1990. Serbia's reforms have been weak and uneven. As a result, Serbia is plagued with many of the same problems that plagued the SFRY in 1990. To put the picture into perspective, consider that Serbia's per capita income, which was above Bulgaria's in 1990, is now only about 80% of Bulgaria's.

Djurdjevic: To what extent has privatization been a good move by the authorities in the region on the path of economic transition?

Prof. Hanke: Privatization is the only way to make the old socialist economies boom. Just look at China. Privatization was brought in by Deng Xiaoping in December 1978. Since then, China has experienced the greatest economic boom in world history. China's boom rests on the back of Deng's privatization and free-market reform ideas.

Djurdjevic: How crucial is the stability of the dinar exchange rate for the relatively good economic situation in Serbia?

> **Prof. Hanke:** Serbia (SFRY) should have adopted a currency board in 1990, when I first proposed it. With a currency board, the dinar would be as stable as its anchor currency. There is nothing more important than a stable currency. Stability might not be everything, but everything is nothing without stability. Just look at Bulgaria, where the lev is a clone of the euro. Bulgaria's currency board and stable lev have allowed it to pass Serbia's level of economic prosperity.

Djurdjevic: European countries will not have the growth rate they used to, and America is in crisis, while China is developing more and more, and Russia is getting richer. How can small countries, like Serbia, orient themselves in this new balance of power?

> **Prof. Hanke:** First, allow me to stress that I don't agree with your characterization of the state of the world. In any case, geopolitical characterizations are irrelevant for a country like Serbia. Small countries, like Serbia, should forget about the so-called balance of powers and politics. Serbia's obsession with geopolitics is one of its big problems. Everything centers on politics. All questions are political questions, all issues are political issues, all values are political values, all decisions are political decisions, and so forth. That is why Serbia goes nowhere.
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> Small countries should ignore geopolitics as Singapore did in 1965. They should adopt a Singapore Strategy. It allowed Singapore to go from one of the poorest places in the world to one of the richest.

Djurdjevic: Croatia and Montenegro are emerging from the crown of the crisis as the most economically affected with the largest expected economic downturns. How long could such a position keep them behind economically less developed countries in the region?

> **Prof. Hanke:** Downturns from the virus will not be permanent. As soon as the virus abates, the downturns will become upturns. So, Croatia and Montenegro will come back, like everyone else.

Djurdjevic: What awaits the Serbian economy after the corona epidemic? How much and what consequences will it suffer?

> **Prof. Hanke:** What awaits Serbia will probably be a continuation of business as usual. Indeed, since I first set foot in Belgrade 30 years ago, not much has changed. The only way to change that is to embrace a version of the Singapore strategy. Let us call it the Singapore Strategy with Serbian characteristics.

Djurdjevic: If you were the head of the government of Serbia and the countries of the region, what economic measures would you use to mitigate and prevent the consequences of the corona crisis?

> **Prof. Hanke:** If I was running the show in Serbia, I would stress what I stressed to the Marković government in the SFRY 30 years ago, namely the 5 Ps: prior preparation prevents poor performance. I would also urge the adoption of the 5 points contained in the Singapore Strategy.

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