

*SAE./No.194/October 2021*

---

## *Studies in Applied Economics*

---

**HOW TO MAKE GOOD PREDICTIONS:  
PROF. DR. STEVE HANKE'S EXCLUSIVE INTERVIEW WITH  
PETIA MINKOVA, DEPUTY EDITOR IN CHIEF OF *168 HOURS***

---

*Steve H. Hanke*

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



## **How to Make Good Predictions: Prof. Dr. Steve Hanke's Exclusive Interview with Petia Minkova, Deputy Editor in Chief of *168 Hours***

### **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 *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 addition, Prof. Hanke serves as a member of the Board of Directors of the United States National Board for Education Sciences.

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 Universidad San Francisco de Quito (2003), the Free University of Tbilisi (2010), Istanbul Kültür University (2012), the Bulgarian Academy of Sciences (2013), Varna Free University (2015), the Universität Liechtenstein (2017), and the D.A. Tsenov Academy of Economics (2018) 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 (ECAEF) in Liechtenstein. In 1998, he was named one of the twenty-five most influential people in the world by World Trade Magazine. In 2020, Prof. Hanke was named a "Knight of the Order of the Flag" by Albanian President Ilir Meta.

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), *Gelişmekte Olan Ülkeler İçin Para Kurullari El Kitabı* (2019), and *النقد في البلدان النامية دليل مجالس*

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

## How to Make Good Predictions:

Prof. Dr. Steve Hanke's Exclusive Interview with Petia Minkova, Deputy Editor in Chief of *168 Hours*.



*It's the type of knowledge that is not in books and can't be taught.*

**Minkova: What do you think of Steve Forbes citing your work on Bulgaria?**

**Prof. Hanke:** Steve Forbes and I have engaged in discussions about money and currencies for many years. For over 25 years, I was a columnist at Forbes magazine where I wrote many articles about money and finance. Among other things, I presented evidence and argued that currency boards in emerging market countries, like Bulgaria, were always superior to central banks that operate with discretionary monetary policies. As a result, Forbes became a strong currency board advocate. Forbes likes to put Bulgaria in the spotlight because its currency board has been so successful. Indeed, his 2014 book, *Money*, he mentions Bulgaria. Bulgaria also was featured in a television documentary Forbes produced on the history of money.

**Minkova: Will currency boards again be the protection against inflation and hyperinflation?**

**Prof. Hanke:** Yes. The inflation rate in a currency board country roughly mirrors the inflation rate in the country that its currency is anchored to. That is because the

currency board's currency is just a clone of its anchor currency. That explains why the inflation rate in Bulgaria roughly mirrors the overall inflation rate in the Eurozone. So, as long as the anchor is sound, the currency board's currency will be sound. That is why I am currently advocating a currency board for both Venezuela and Lebanon, two countries that have recently been in the grip of hyperinflations.



*Prof. Dr. Steve Hanke with his wife*

**Minkova:** Do you think the only effective way to stop inflation is to restrain the growth in the money supply?

**Prof. Hanke:** Yes. My good friend and mentor Nobelist Milton Friedman was right. Inflation is always linked to the rate of growth in the money supply. It is money that provides the fuel for inflation. So, the only way to slow down inflation is to slow down the growth in the money supply. And the best way for emerging market countries to control inflation is to tie their currencies to a sound, non-inflating anchor currency via a currency board.

**Minkova:** What is your inflation forecast for the major economies and Bulgaria?

**Prof. Hanke:** In general, the growth in the money supply, broadly measured, has surged since the COVID pandemic started in February 2020. In the U.S., the growth in the

money supply has been the most dramatic, with broad money growing by almost 35%. In the Eurozone, the growth in the money supply has been much more modest, a little over 14%. In China, broad money has grown at a little over 13%, and in Japan, it has only grown by about 11%. Given these increases in the money supply and adjusting them for the anticipated increases in the demand for money, I am forecasting the following inflation rates for 2022: U.S.A. (5%-6%), Eurozone (3%), China (1.75%), and Japan (1%). As for Bulgaria, since the lev is tied to the euro via the currency board, the inflation will be roughly the same as the Eurozone's 3%.

**Minkova:** How can ordinary people protect their savings in such a situation?

**Prof. Hanke:** There are many ways to protect one's savings. My advice would depend on each person's particular details. That said, one sure way to protect savings from the ravages of inflation is to purchase government bonds that are indexed to inflation. With indexed bonds, if inflation goes up, the bonds' principal and interest payments go up lock-step with inflation. So, investors are protected from inflation. Back in February and in anticipation of more inflation in the U.S., I purchased some U.S. Treasury bonds that are indexed to inflation. Those bonds protect my investment from inflation and will also generate a nice profit if my inflation forecast is correct.

**Minkova:** The question is, how did you guess? (Related to El Salvador)

**Prof. Hanke:** You pose a very interesting question. On the one hand, I never guess about anything. First, I employ economic principles, simple models, and facts at my disposal to reach a conclusion. That is the craft that I have learned in over 65 years of investing and trading. On the other hand, I always "guess." Over the years, I have acquired a great deal of what Michael Polanyi termed "tacit knowledge." It's the type of knowledge that is not in books and can't be taught. It is the kind of knowledge you acquire by watching and listening. It is difficult to define, but it is similar to what people often term "intuition." So, after I objectively analyze a problem, I then make a "guess." And my tacit knowledge has proven to give me the ability to often "guess" the correct answer. This is the all-important art of my craft.



**Minkova:** How do you keep track of so many details in so many different countries?

**Prof. Hanke:** Ironically, simplicity is the answer. Next to honesty, simplicity is the most important thing in business and banking. To keep things simple, the secret is to know what the essential elements are and how they fit together. I learned the wisdom of simplicity and how to trade at my grandfather Hanke's knee, when I was a country boy growing up in the state of Iowa. That is the state where the tall corn grows. My grandfather had a rather large agricultural operation. It had many moving parts that were stretched across the United States. He made things tick like a Swiss clock because he kept things simple. Even as a young boy, I could understand the basics of how his operation worked. I also learned another important lesson from my grandfather: the harder you work, the luckier you become.

**Minkova:** What is the algorithm of your thinking? (This is about inflation in the U.S.)

**Prof Hanke:** The most reliable way to forecast inflation is with a very simple equation that was first formulated by the great American economist Irving Fisher in 1911. It's called the equation of exchange. When it comes to macroeconomics, I always tell my students that Fisher's equation is a theory of everything. Forget all the fancy modern algorithms. They don't work. Your question reminds me of an aspect of my work that has served me well and saved me a great deal of time and money. When I am faced with a problem, I always go back to see what the great ones from the past have had to say about whatever the problem is that I happen to be grappling with.



**Minkova:** Do you have a great team?

**Prof. Hanke:** Yes. My main collaborator happens to be Mrs. Hanke. She is not an economist, but rather a Parisian, a philosopher, and a literary critic. Mrs. Hanke covers all of the cultural and geopolitical aspects of what is, in fact, a truly joint enterprise. Interestingly, the cultural and geopolitical aspects are often the most important. Fortunately for me, I have the pleasure and benefit of Mrs. Hanke's knowledge and wise counsel every day of the week. For day-to-day operations, I rely on around 30 first-rate assistants who operate as apprentices. With my assistants, I keep things very simple and do not tolerate mistakes, even tiny mistakes. I teach my assistants the meaning of a "precision drill." That is why they all will become highly successful journeymen, and some might even become masters of the craft. I also have a network of trusted contacts throughout the world. When I need something in Latin America, Europe, China, or elsewhere, I can pick up the phone and obtain whatever I might need without problems.



**Minkova:** Do you know everything with such precision because of your contacts with some of the most influential people on Wall Street?

**Prof. Hanke:** To some degree, the answer is "yes." But, there are several things to keep in mind. You have to know what information you are looking for and what questions to ask. Then, you have to know who to ask. That is the hard part. There are surprisingly few



people who are reliable and actually “know” the correct answers. Most of what is produced by Wall Street’s investment banks is very “noisy.” You have to learn how to separate the “signal” from the “noise.” That is where “tacit knowledge” comes into play.

For example, I've been trading soybeans since I was 14 years of age, and Al Carver, who I went from kindergarten through the last grade in high school with, frequently conveys detailed information to me about the soybean yields. This year, it's a very good crop, about 65 bushels to the acre. At \$13/bushel, that amounts to roughly \$845 gross revenue per acre. And since he's harvesting about a 1,000 acre farm. That's a gross revenue of about \$845,000 for soybeans. That's a lot of money. But, the capital costs in agriculture are very high. Agriculture in America is a very capital intensive and sophisticated industry. For example, the combine Al is driving is equipped with more computers than you could shake a stick at and costs approximately \$500,000. And the farmland that he's driving over is worth about \$10,000 per acre, for a total value of about \$10,000,000. As for Al, he received his bachelor's and master's degrees at Iowa State University, one of the world's greatest agricultural universities. So, back to your question, I have extremely close and loyal contacts for details about any aspect of markets and trading where I am interested and involved.

By the way, that 1,000 acre farm that my old pal and collaborator Al Carver is harvesting soybeans on is only one of many farms he owns. Don't be fooled by Wall Street and all its Hollywood-type glitter. Many good old country boys have much larger and sounder balance sheets. One lesson in life that I learned as a country boy is that it's good to eat humble pie each day, and to, at the end of the day, stay close to your roots. It keeps you honest and out of trouble.