CHAPTER 29

A Life Among the "Econ"

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I was born on December 29, 1942 and grew up in rural Iowa. What follows are little more than vignettes of my life among the "econ," related species, and assorted dramatis personae.

While I don't know if I have lived nine lives, I certainly have lived three. One has been in the world of trading, business, and markets. Then there is my academic life, one in which I have been a professor at the Colorado School of Mines, the University of California Berkeley, and The Johns Hopkins University—where I am in my 54th year. And then there's the world of political economy, where I have been an advisor to many governments and heads of state.

Just what variety of econ am I? Broadly speaking, I consider myself to be a classical liberal. As a practitioner of classical political economy, I am, to put it simply, searching for solutions to problems. At the center of that search is liberty. And for me, liberty rests on three pillars: private property, limited government, and free markets.

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My exposure to the markets began at a very early age, when I was a young country boy in Iowa. The Hayekian price discovery process was going on from morning till nightfall. The radio was always tuned in to what was happening in the livestock and grain markets in Chicago and Omaha. Talk at the local coffee shop centered on who was buying or selling cattle, hogs, hay, land, you name it, and for what price and on what terms. So, when I first encountered Hayek's price-theoretic ideas years later, they struck me as commonsensical and were easy for me to grasp.

My first "hands-on" exposure to the markets was when I was 10 years of age, 70 years ago. It was then that I learned, while "assisting" my grandfather, how to hedge. He had a large egg operation. Eggs were collected, candled, graded, put in cold storage and eventually shipped to New York City or Boston. To manage the price risk, we routinely sold eggs forward on the Chicago Mercantile Exchange. A few years later, at the age of 14, I opened my first trading account, started trading soybeans, and have been trading ever since.

As a student of markets and the price discovery processes, I have been influenced by many economists with classical liberal leanings. One of my favorite academics is Ludwig Lachmann. He is one of the few economists who understood forward markets and their important role in the functioning of a free-market economy. Lachmann recognized that assets are held for resale at some uncertain future point in time and that market participants are constantly groping in a sea of subjective information to determine ever-changing "fundamentals." To be successful and survive, one must possess what Israel Kirzner called "alertness," which is the central mark of an entrepreneur. When thinking about markets and price discovery, I think along Lachmann lines.

Another economist who influenced my thinking about markets and trading was Felix Somary, known as the Raven of Zurich. Somary was Viennese and studied under Böhm-Bawerk. His peers as students included the likes of Schumpeter and von Mises. Somary's advice: make deep dives into everything that might influence prices, including geopolitics; realize that few in positions of power understand anything about financial markets and economics, and place big bets accordingly; realize that there are few game-changing moments in history and that they must be fully exploited; stick to your guns; and be fast on your feet.

At the time of his death in 1956, just where did the Raven of Zurich think we were headed? The following sentence from Somary's unpublished memoirs, which his son Wolfgang sent me in 1989, answers that question: "The cult of the masses has elevated the police state into the ideal polity…".

Moving from the somewhat general to the specific side of the markets, I had the good fortune to meet and become associated with Albert Friedberg. Like Somary, Friedberg is an Austrian School economist. He is also one of the world's greatest traders. We met in 1985. I had written a piece in *Barron's* about the Austrian Business Cycle. Friedberg had read it, and invited me for lunch in Toronto. We saw eye-to-eye and hit it off immediately. I became Chief Economist at the Friedberg Mercantile Group Inc., where I am now Chairman emeritus.

Most of our trades at Friedberg's involved the application of Austrian economics, arbitrage principles, Friedberg's uncanny ability to take the temperature of markets and market sentiment, and his Kirznerian alertness—alertness that allowed him to spot opportunities thrown up by "mispricing."

Shortly after I began work at Friedberg's, I developed a plain vanilla model of the OPEC cartel. I predicted that OPEC would collapse in 1986 and that crude would plunge to below $10/bbl. It did. At Friedberg's, we were short crude and gas-oil on a massive scale. We controlled about 70% of the short interest in the gas-oil contract in London. We were also short the Saudi riyal and the Kuwaiti dinar. When OPEC collapsed in July 1986, all our ships came into port.

Another memorable trade occurred in 1993, when we concluded that, given the internal inconsistencies in the European Monetary System (EMS), the French franc was going to tank. Our short position broke the back of the Franc Fort and almost forced France out of the EMS. This was duly noted in Paris, where Mrs. Hanke, a Parisian, and I reside part time. Indeed, that trade was spectacular enough to make the French weekly *Paris Match* in a piece titled "Scénario-fiction pour une journée de cocagne: Hunt, Hanke, Goldsmith, Tsutsumi et les autres…".

Then, 1995 rolled around. It was a banner year for me. I was President of Toronto Trust Argentina (TTA) in Buenos Aires. TTA ended 1995 as the world's top performing fund, up 79.25%.

Before I close out this chapter on markets and trading, I must stress that there's nothing more important than a balance sheet. In January 1998, I delivered a speech in Vienna. In passing, I noted that the balance sheet of the Central Bank of Russia was deteriorating rapidly and that the ruble was bound to collapse. The Bank's net foreign assets were falling like a stone and its net domestic assets were surging. A *Reuters* reporter was in the audience and reported on my remarks. When his story hit the wire, the ruble lost about 3% against the U.S. dollar. I realized that I was onto something. I immediately put on a short position, and as I anticipated, the ruble eventually tanked in a spectacular collapse on August 17, 1998.

In addition to Friedberg, Harry Langenberg supplied me with a great deal of wise counsel about markets from an Austrian perspective, and also about the importance of disseminating classical liberal ideas. Harry was, as he liked to say, "just a stockbroker." In fact, he was a St. Paul's School, Princeton old-school kind of guy, a member of the Mont Pelerin Society and one who was deeply steeped in the practical side of Austrian economics. We talked regularly by telephone about the markets and the importance of spreading the free-market message, which Harry did via "The Discussion Club," a lively venue Harry established in St. Louis. Harry also circulated a little pamphlet *Langenberg's Kitchen*. It contained sketches of 21 of Harry's favorite freedom fighters and their ideas. I am proud to say that Harry included yours truly. Also featured were Milton Friedman, Baldy Harper, Friedrich Hayek, Henry Hazlitt, Israel Kirzner, Albert Nock, Leonard Read, Wilhem Röpke, and Ludwig von Mises, among others.

To close my vignettes on business and trading, allow me to introduce Heinz Schimmelbusch, a real Austrian, both in terms of nationality and thought. Schimmelbusch founded the Advanced Metallurgical Group in Amsterdam. It's a company that produces critical materials, like lithium, tantalum, ferrovanadium, titanium alloys, silicon, graphite, etc. It's also a company where I serve as Chairman of the Supervisory Board. For me, it's particularly interesting and productive because it brings me back to the beginning of my career, when I was teaching courses in mineral economics and petroleum economics at the Colorado School of Mines. And also because it has facilitated a close working relationship with Schimmelbusch, a real entrepreneur and first-class professional with unparalleled knowledge and experience in the world of commodities. I have learned many lessons from Schimmelbusch about the metals markets, how to run a big industrial enterprise, how to hedge, how to innovate in the Schumpeterian sense of that word, and how to fight socialism. On that last point, Schimmelbusch's most recent book is a fascinating satirical treatment of central planning: "Critique of Commutopia: On an Economic Concept of the New Left."

Interestingly, Somary, Friedberg, Langenberg and Schimmelbusch—all Austrian economists and seasoned financiers—have conveyed one big lesson in life to me, the most important one: always have an exit strategy, a hedge. If things turn negative, have a strategy to facilitate a departure from your place of work or even your country of residence. To ensure the successful execution of the hedge, they, to a man, counseled the same thing: always be financially independent—in short, make certain that you are loaded.

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In 1960, I was packed off to the University of Colorado (CU) at 17 years of age. My first encounter with formal economics was in a course on European economic history. All I can remember about that course is that Prof. Ragaei El Mallakh trumpeted Schumpeter in every class. So, it was as a freshman at CU that I was first introduced to the works of an Austrian economist.

During my years as a graduate student at CU, Fred Glahe was one of my primary professors. His macro theory course was very traditional, but on the side, Fred and I studied Hayek and the Austrian Business Cycle. That was my first serious introduction to the Austrians. Fred eventually co-authored an excellent book *The Hayek-Keynes Debate—Lessons for Current Business Cycle Research*. When it came to econometrics, Glahe was demanding and precise. He taught me the importance of using primary data and that everything must be properly presented so that your work could be replicated. Fred did, however, have a certain playful side. He loved to wear a custom-made T-shirt. It read: "Adam Smith Was Right — Pass It On."

At the start of my second year of graduate work, I was scheduled to become chief of the teaching assistant corps. But, a few weeks before classes were scheduled to begin in September, Morris Garnsey, who was the Chairman of the Economics Department, called me in and announced that a full-time, tenure-track faculty position had unexpectedly opened up at the Colorado School of Mines in Golden, Colorado, after a professor died of a massive heart attack a few days before classes were to begin. Mines was desperate. I told Garnsey that teaching three courses per term would kill me. I was only a second-year graduate student and was taking a full load of graduate courses at CU. 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 (1966–1969), I taught the first courses that had ever been offered at Mines in mineral economics and petroleum economics. I also edited two books on petroleum economics. Those books allowed me the opportunity to be introduced to another significant mentor, M.A. Adelman of MIT. Morry was a contributor to both books and one of the greatest petroleum economists of the twentieth century.

Summers at CU were lively. Boulder, Colorado was an inviting watering hole for big-name visiting professors. One was Bill Breit from the University of Virginia (UVA). I operated as his teaching assistant. After Bill returned to UVA, he alerted me to a month-long free-market economics course that was offered at UVA for young faculty. I was accepted for the 1967 session. It was an eye-opener and turning point. The program rolled out the big guns. Lectures were delivered by Armen Alchian, Bill Breit, James Buchanan, Ronald Coase, Warren Nutter, Gordon Tullock, and Leland Yeager, among others. All were impressive. They focused on the role that property rights, limited government, and free markets played in enhancing liberty. Yeager covered international trade. When he arrived in the lecture hall, he was always carrying a yardstick. Why? So he could draw perfect diagrams on the blackboard. For me, that was a first. Yeager was unique. We became good friends and collaborators. Today, I am in the process of finishing *Capital and Interest*, a book Leland and I had worked on for years and one that Leland entrusted with me to finish if he didn't make it to the finish line.

At the time of that eventful summer in 1967, it was Warren Nutter who had the most impact on me. His meticulous work showed why Soviet statistics were pure fabrication. Nutter's findings flew in the face of virtually all the works by Sovietologists and economists, including Paul Samuelson and John Kenneth Galbraith. Nutter was cool, tough, and loved to swim against the tide. He was proven right. The Soviet economy turned out to be exactly what Nutter's detailed analyses showed it to be: little more than a Potemkin village. Nutter's works, including *Political Economy and Freedom,* remain in my library and are well worn.

Upon finishing my graduate studies, I accidentally landed at Johns Hopkins. I say "accidentally" because in those days, there were virtually no faculty members who had arrived from anywhere but the Ivy League universities, MIT, Chicago, Berkeley, Stanford, Cal Tech, and a handful of foreign elite universities. Hopkins had produced pioneering research on urban water demand and its relationship to systems engineering. My dissertation research happened to be what was the second generation of the pathbreaking Hopkins research. It was a perfect match, one that allowed me to realize the most rapid promotion from PhD to full Professor in the history of Johns Hopkins.

As for classical liberals, they were few and far between at Hopkins. An exception was Sir Alan Walters. He was a great economist, widely known for his role as Margaret Thatcher's economic guru. Alan and I edited two books together, co-authored a Forbes magazine column, "Point of View," for a number of years and wrote the entry for "Currency Boards" in *The New Palgrave Dictionary of Money and Finance*. Most of our collaboration focused on alternative exchange-rate regimes, a topic that Alan taught me a great deal about.

Nobelist Robert Mundell also taught me a great deal about exchange-rate regimes and lent me support in my work as a money doctor. Many of Bob's lessons and advice were conveyed during summers at Mundell's Palazzo in Tuscany and while we served together as members of the Financial Advisory Council in the United Arab Emirates.

Another great economist, and one with whom I had the longest working relationship (40 years), was William Niskanen. I first met Bill in 1971, when he was the Assistant Director for Evaluation at the Office of Management and Budget (OMB). Bill tapped me as an OMB advisor.

Prior to his position at OMB, Niskanen served as Director of Special Studies for Secretary Robert McNamara at the Department of Defense. At 29 years of age, Bill was a "whiz kid" with a civilian rank equivalent to that of a brigadier general. He held the highest security clearance and had access to highly classified information. As a result, he was wise to the ways of Washington, D.C. He knew that officialdom was untrustworthy and very prone to lying. Indeed, Bill told me that, upon viewing the first moon landing, he initially thought it might have been staged in a Washington, D.C. warehouse. I recount this to punctuate the fact that I, like Bill, am very skeptical about the veracity of official information disseminated by governments and non-governmental organizations.

After OMB, Bill moved to the Ford Motor Company, where he was Director of Economics. Bill famously argued that import restrictions would be detrimental to the U.S. auto industry. For sticking to free-market principles, Bill was immediately sacked.

Bill then became a professor at the University of California Berkeley, where we were colleagues and collaborators. Niskanen and I were once again colleagues at President Reagan's Council of Economic Advisers in the early 1980s. We last rendezvoused at the Cato Institute, where Bill served as Chairman until his passing in October 2011 and where I was a senior fellow.

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My life in the sphere of political economy has been intense and eventful. Most of it has been conducted in collaboration with Mrs. Hanke, whose field of interest is literary criticism, but de facto it is geopolitics. There have been many appointments and honors that have resulted from successful currency reforms in Argentina, Bosnia-Herzegovina, Bulgaria, Ecuador, Estonia, Lithuania, and Montenegro. Indeed, as a money doctor, I have had the opportunity to stop more hyperinflations than any living economist. Seven honorary doctorate degrees and four honorary professorships, including the Gottfried von Haberler Professor at the European Center of Austrian Economics Foundation in Liechtenstein, have come my way. And in 1998, I was named one of the 25 most influential people in the world by *World Trade Magazine*. In 2020, I was knighted, a Knight of the Order of the Flag. Upon Mrs. Hanke's advice, all of my foreign appointments and engagements have been conducted on a pro bono basis, not as a paid consultant. That's the best way to stay free and independent.

In what follows, I limit myself to some memorable high points. I joined President Reagan's Council of Economic Advisers as a Senior Economist in 1981. One of my early assignments was to analyze the federal government's landholdings and make recommendations about what to do with them. These lands are vast, covering an area six times larger than the surface area of France.

These public lands represent a huge socialist anomaly in America's capitalist system. As is the case with all socialist enterprises, these lands are mismanaged. Indeed, the U.S. public lands represent assets that are worth trillions of dollars, yet they generate negative free cash flows.

I first presented my recommendations to sell public lands at a Public Lands Council meeting in Reno, Nevada in September 1981. The title of my speech was "Privatize Those Lands." It was eventually published in *Reason Magazine*. The most interesting aspect of my speech turned out to be its title. As Mrs. Hanke reviewed my speech, she said that I had to change the language to say that it was "privatization" that I was advocating. At that time, that word wasn't in *Webster's Collegiate Dictionary* because it was a French word that Mrs. Hanke had brought with her from Paris. We eventually convinced Webster's to enter the word into *Webster's New Collegiate Dictionary*. "Privatize" was entered in the 1983, 9th edition. Unfortunately, the U.S. is still burdened by a huge socialist enterprise: its public lands.

The next memorable event in my life as a political economist came in South America. Early one afternoon in Montevideo, Uruguay, I was delivering an address to a large crowd, when the master of ceremonies interrupted me with a confidential message: President Augusto Pinochet wanted to meet with Mrs. Hanke and yours truly in Santiago, Chile. We accepted the invitation and met privately with Pinochet the next day. Pinochet had been informed that Mrs. Hanke and I knew Argentina's President Carlos Menem and that Pinochet could trust us. Our mission was simply to convey a message to Menem. Pinochet and Chile had no intention of going to war with Argentina. As a result of that message, both Argentina and Chile immediately pulled their troops back from the border. War was avoided.

The next notable event involved bringing down the Communist League in the Socialist Federal Republic of Yugoslavia, where I served as the Personal Economic Advisor to Deputy Prime Minister Zivko Pregl from 1990 until June 1991.

I first met Pregl in late 1989 at a dinner in Vienna, Austria that was arranged by our good friend, the late Daniel Swarovski of Swarovski crystal fame. Swarovski was a major supporter of the Austrian School of Economics and the establishment of free-market economies in former Communist lands.

The day following our pleasurable dinner, Pregl—the person responsible for developing economic reforms in the Yugoslav government led by the late Ante Marković—requested a meeting. We discussed Pregl's reform ideas, and Pregl invited me to become his advisor. I indicated that I had reservations because I was a classical liberal, free-market economist, and Pregl was a leader of the Communist League of Yugoslavia.

Pregl then surprised me when he said my qualifications were exactly why he invited me to be his advisor. He asserted that he wanted to implement free-market reforms and didn't want watered-down advice. At that point, I indicated that I would become his advisor on the condition that he bring down the communist party in Yugoslavia. Pregl asked, "How in the world am I going to do that?" I presented a precise gameplan. Pregl persevered and did bring down the League in January 1990. It was then that I became Pregl's personal economic advisor.

As Machiavelli repeatedly stressed, nothing great could ever be achieved without danger. How right he was. Some currency reforms of the type I proposed threatened to upset apple carts. That threat has put me in the crosshairs of state-sponsored assassins on three occasions.

The first two were in Indonesia. During one of our nightly meetings in his little den at his private residence, President Suharto surprised me by stating that he had good intelligence that I was a marked man. He informed me that two foreign services wanted me out of the picture. As a result, Suharto assigned a sizeable part of his personal security detail to look after Mrs. Hanke and me on a 24/7 basis.

The next time I received a "marked man" notice was in 1999 in Montenegro, where I served as State Counselor, a position that carried cabinet rank, and as advisor to President Milo Djukanovic. In that capacity, I determined that the replacement of the Yugoslav dinar with the Deutsche mark was both feasible and desirable.

In 1999, Montenegro was still, along with Serbia, part of the Federal Republic of Yugoslavia and Strongman Slobodan Milošević was the president of Yugoslavia. On November 2, 1999, Djukanovic made a decisive move that would set Montenegro on a course toward independence: he granted the Deutsche mark legal tender status. This all but eliminated the dinar from circulation in Montenegro. It also infuriated Milošević. I became a marked man once again.

The Yugoslav Minister of Information Gorin Matić produced a steady stream of bizarre stories. Among other charges, I was accused of being the leader of a smuggling ring that was destabilizing the Serbian economy by flooding it with counterfeit dinars. The most spectacular allegation, 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 Milošević.

In addition to this comedy of the absurd, there was a serious side. I knew this because Djukanovic informed me of the danger and assigned heavy security to look after Mrs. Hanke and me.

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As I close these remembrances, I have saved the best for last. In all of my thoughts and endeavors, Mrs. Hanke is not too far away. The 1979–1980 period was a very important time, a period when we brought our views on classical liberalism into sharp focus.

We were living in Baden bei Wien and were in residence at the Hotel Schloss Weikersdorf. While in Austria, we became inspired and took a deep dive into the works of the Austrians, particularly Hayek. In addition, Mrs. Hanke went through Frédéric Bastiat's works. It was a pivotal time. There was no turning back.

And speaking of Hayek, our favorite Austrian and family friend, allow me to recount the longest, most interesting dinner that Mrs. Hanke and I have ever had. In November 1983, Mrs. Hanke and I rendezvoused with Hayek at what was, back then, Washington D.C.'s most "in" restaurant: the Maison Blanche. Hayek arrived at 6 p.m., precisely the appointed time. The evening began with some light, but interesting, back and forth, particularly Hayek's remembrances of Mrs. Hanke's aunt—known as the most beautiful, intelligent young lady in Vienna and clearly the apple of Hayek's eye, something confirmed to us by both Gottfried von Haberler and Herbert Furth. Things quickly turned from light to heavy. Mrs. Hanke engaged in a long discussion with Hayek about his book *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology*. At one point, close to Midnight, and well beyond the Maison Blanche's normal closing hours, Hayek proclaimed that he had never had the pleasure of discussing *The Sensory Order* with someone who actually understood his book and what was behind it. A few days later, on November 21, 1983, Hayek presented Mrs. Hanke with a copy of his book *New Studies in Philosophy, Politics, Economics, and the History of Ideas*, with the following inscription: "To Liliane Egon Hanke, In pleasant memory of a fascinating conversation four days ago." Fortunately, I have the pleasure of having those fascinating conversations each and every day.

So, now that I reach the end, what is my prognosis about the prospects for classical liberal ideas to prevail? On the one hand, I remain optimistic. Indeed, small battles can and have been won. For example, one Sunday afternoon in July 2020, Secretary of State Mike Pompeo called me. He indicated that the United States was considering the imposition of financial sanctions on Hong Kong, and that a final decision would be made by President Trump the next day. But, before the White House meeting Monday morning, Secretary Pompeo had been instructed to obtain my opinion. We spoke via telephone for 35 minutes. Pompeo was adamantly for sanctions. I was adamantly against them. Monday afternoon, the White House emailed to inform me, "Hanke you won. There will be no financial sanctions imposed against Hong Kong."

On the other hand, the public and public opinion tend to run the show in popular democracies, and the public's voracious appetite is for instant sound bites and "news," dramatically portrayed. This appetite tends to crowd out serious fundamentals. So, what Frank Knight called Gresham's Law of Talk prevails. Bad talk drives out good. This fact brings me to a somewhat gloomy conclusion, one that is close to that of Felix Somary, the Raven of Zurich: "The cult of the masses has elevated the police state into the ideal polity."