The Oligarchy's Plan for Montenegro: Financial Balkanization and a New War

by Umberto Pascali

Has the countdown toward a new war in the Balkans already started? Many recent developments would suggest that this is the case, and that another NATO intervention is being geared up, at least by some among the most adventurist faction, the so-called "Brzezinski gang." This time, the *casus belli* is supposed to be provided by the Republic of Montenegro, which, along with Serbia, makes up the Federal Republic of Yugoslavia.

On Aug. 14, the Foreign Press Bureau carried a story from Zagreb, Croatia, saying that the British weekly *Observer* had reported that the Montenegrin government had asked NATO to declare Montenegro a "no-fly zone," to be enforced by NATO aircraft, as well as a more pronounced NATO presence in the Adriatic Sea. Montenegrin Foreign Minister Vojin Djukanovic denied that any such request had been made, and added that his government "did not even consider such an option"—despite that fact that some high-ranking international officials have done so. Apparently, the British are running their usual "black propaganda."

Then on Aug. 15, the U.S. State Department warned U.S. citizens not to travel to Serbia or Kosovo, and to be aware of the possible dangers of travelling to Montenegro. The reason given was the danger of hostilities toward American citizens from both the authorities and ordinary people in Serbia. There is also supposedly a "security threat" due to anti-government demonstrations in Yugoslavia leading up to the Sept. 24 Presidential elections. The government in Belgrade is said to be spreading "aggressive anti-American propaganda," including "unfounded accusations of the involvement of American diplomats in the political murders in Serbia and Montenegro."

Montenegro, together with Serbia, are the only republics remaining in rump federal Yugoslavia. Montenegro is a small coastal republic, with 600,000 inhabitants, and it was the most faithful ally of Serbia at the beginning of its war of aggression against the other republics that made up socialist Yugoslavia. Montenegro has the highest percentage of supporters of the "Greater Serbia" ideology pushed by Belgrade's strongman, Yugoslav President Slobodan Milosevic. Furthermore, the economies of Montenegro and Serbia have been totally integrated, and the only way that the President of Montenegro, Milo Djukanovic, was able to claim some "economic independence," was by letting the underground "black" economy grow to levels unprecedented even in the Balkans.

Since at least 1998, Djukanovic has been promoted by U.S. Secretary of State Madeleine Albright and British Prime Minister Tony Blair, to take a more and more independent position vis-à-vis Yugoslavia. On the other hand, according to most observers, Djukanovic does not control a majority of the Montenegrin electorate, which reportedly opposes breaking links with Belgrade. For this reason, he opposes a referendum on Montenegrin independence. The pressure on Djukanovic on the independence issue has created a very volatile situation, which has brought Montenegro to the verge of a civil war.

The only level on which the "independence" of Montenegro has taken a big step forward, is on the financial level. At the moment, a bill for the creation of a currency board is before the Montenegrin Parliament. The key person in this scenario is American free-market economist Steve H. Hanke, known as "the evangelist" of the currency board, who has been the adviser, some say controller, of Djukanovic, and, since July 13, 1999, has been the official economic adviser to the President.

The case of Montenegro illustrates the consequences of the Balkan strategy pushed by the Anglo-American oligarchy. The determination of this oligarchy to force Montenegro into semi-colonial rule, using the instrument of the currency board, sheds light on what the real game has been in the Balkans and eastern Europe since 1989. The colonialist currency board, as it is to be applied—according to Hanke's blueprint—to Montenegro and Yugoslavia, and as it has already been applied to Bosnia, gives a good insight into "post-modern" colonialism, otherwise known as globalization.

The "Brzezinski gang" set up the series of provocations and dirty tricks that led to 11 weeks of NATO bombings in 1999, which destroyed the civilian infrastructure of Serbia, Kosovo, and Montenegro. Under the ideological orchestration of Zbigniew Brzezinski and the British oligarchy, they were able to smash the resistance of a majority of NATO member-countries.

The fundamental motivation for that military adventurism had little to do with the Balkans, and a lot with the impending blowup of the globalized financial bubble, which is still being pumped up daily by Wall street and the City of London. Once the financial oligarchy had taken the decision to "keep pumping" instead of considering a rational way out, the strengthening of the "New NATO"—as the modern, globalized version of the British imperial navy—became the only way to keep control of a world situation that was exploding, in opposition to the speculative looting required to feed the bubble. The financier oligarchy's aim was and is to destroy every vestige of the sovereignty of the nation-state: from the United States, to Russia, to Yugoslavia, to Indonesia and Malaysia. That means destroying the nation's armed forces, which are necessary for defense, and its currency, which is essential to develop its labor force and industry. It is this context, in which the operations around Montenegro must be understood.

What Is a Currency Board?

The instrument to "privatize" Yugoslavia—as well as many other countries then considered part of, or linked to the Soviet bloc—was the "currency board," the financial instrument invented and used by the British Empire to control its colonies much more firmly than any army could.

Technically, a currency board reduces a nation's currency to an extension of an international reserve currency—usually the dollar or the pound sterling—by limiting the nation's domestic currency issuance to the amount of foreign currency the government holds. This destroys a nation's economy in several ways. First, it sharply limits the currency in circulation, and thus the potential for economic growth. Second, the currency board is run by foreign financiers, not nationals of the country itself. The country is left with no sovereign authority to issue credit for anything. Third, the board enforces harsh austerity. The country is forced to become a cheap goods exporter, unable to afford essential capital goods imports. Finally, under a currency board, the nation's currency must be kept "fully convertible," which means that it is always subject to the threat of financial warfare. (See Richard Freeman, "Currency Boards: Going Back to the Methods of British Colonial Rule," *EIR,* Feb. 27, 1998.)

In other words, the currency board means slavery, and the legalization of drugs and the black market, which is where the nation's dollars are to come from.

The institution of the currency board, in opposition to a national bank, was revived by Sir Alan Walters, the top financial adviser of then-British Prime Minister Margaret Thatcher. In 1983, Walters was given the task by the Iron Lady to "stabilize" the currency of Hong Kong, at the time, a Crown Colony. He did it by establishing for the first time a modern form of the "orthodox currency board," which had basically disappeared from the world with the decolonization of Africa and Asia in the 1950s and '60s.

It was Walters who passed the idea of the currency board along to an American economist who had worked with him at Johns Hopkins University, Prof. Steve H. Hanke. Hanke and a like-minded graduate student, Kurt Schuler, were sent to London to study the colonial archives, and became experts in the history of the currency boards. Then Hanke was deployed to bring the financial colonial virus back into the world.

Hanke does not attempt to conceal the colonialist nature of the enterprise, and its British origins. In a paper published in June 2000, "Currency Board for Developing Countries," Hanke insists that a colonial currency board "without protection" was better that a National Bank run by an independent country. "Many past currency boards, especially in British Colonies, have lacked formal legal protection. They have had much informal protection though. Most have been managed by British or British-trained civil servants who absorbed a long tradition of financial rectitude. The British government would have fired colonial officials who tried to devalue colonial currency against sterling."

Hanke's first experiment was Yugoslavia. During 1990-91, he was the "personal economic adviser" to the Vice Prime Minister of Yugoslavia, Zivko Pregl. The currency board formula, just taken from the vaults of the colonial archives in

Hanke on Yugoslavia

The following are remarks by U.S. economist Steve H. Hanke, on his scenario for Serbia and Montenegro.

The only way to guarantee sound money is to dump the National Bank of Yugoslavia and the dinar and replace that currency with the German mark. The G-8 must insist on this, and there should be no assistance to Belgrade until this happens.

—July 5, 1999

To conclude that Montenegro is the next Balkan hot spot is an understatement. The U.S. must abandon its Yugoslavia policy of unity at all costs and support Montenegrin independence before, not after, more blood is spilled in the Balkans.

—Sept. 6, 1999

Balkanization has also been a prominent force in the 1990s. With the collapse of the Soviet Union, a large unified currency area was dismembered. In consequence, 15 national currencies officially circulate where the ruble once ruled the roost. Much of the same occurred after Yugoslavia broke apart. Now six currencies circulate as legal tender. The last time currency balkanization occurred on such a grand scale in Europe was during the monetary chaos that followed World War I. In 1914, Europe had ten currencies. By 1920, Europe had 27 paper currencies.

—Jan. 3, 2000

London, was to be applied there, immediately after the collapse of the Berlin Wall in 1989. In 1990, Hanke and Schuler prepared the text of a "Currency Board Law for Yugoslavia" (see *Documentation*). A majority—three out of five—of its directors were to be foreign citizens chosen by foreign banks.

The imposition of the currency board almost succeeded, but, in the end, the plan was rejected, a slap in the face that Hanke and his sponsors did not forget. Still, on Jan. 24, 1994, when Milosevic was solidly in power in Belgrade, he tried to apply the currency board reform. In a commentary in the April 28, 1999 *Wall Street Journal,* Hanke could not contain his pride, despite all his anti-Milosevic rhetoric: "I received a congratulatory phone call from Belgrade. Allegedly the super-dinar system [the dinar is Yugoslavia's currency] had been patterned after the currency board blueprint in my 1991 book, *Monetary Reform and the Development of a Yugoslav Market Economy*."

After Yugoslavia, Hanke became the economic adviser to several countries' leaders, imposing currency boards wherever he had a chance. During 1994-96, he was State Counsellor on Monetary and Financial Issues in the Republic of Lithuania; in 1995-96, he was adviser to Argentine Economics Minister Domingo Cavallo. Since 1997, he has been an adviser to President Petar Stoyanov of Bulgaria. In 1998, he was appointed Special Counsellor to the Economic and Monetary Resilience Council in the Republic of Indonesia, making his contribution to the destabilization and impoverishment of the fourth-largest country in the world.

Finally on July 13, 1999, immediately after NATO took over Kosovo, Hanke was appointed adviser to Montenegrin President Djukanovic, and promptly presented legislation for a Montenegrin currency board.

Hanke became the key representative of the globalizers, advising (some say manipulating) the young Djukanovic on a complex strategy, aimed not just at forcing tiny Montenegro to accept the currency board scheme, but, more importantly, at implementing the plan that failed in 1990 in Yugoslavia.

This is also the plan that is now being pushed by Albright, a supporter of Djukanovic. Albright's ultimate goal is to create a coalition that would include Montenegro, the Kosovo Liberation Army (KLA), and the Serbian opposition to Milosevic, a coalition that would take over, not just Montenegro, but the whole of Yugoslavia, and implement the currency board "reform," eliminating any remains of financial sovereignty. Milosevic has been offered many "sweetheart deals" if he accepts this scenario, but, as any informed observer realizes, it is not up to Milosevic to decide. There is a strong military and political elite in Belgrade that, at this point, is determined to resist. Their strategic thinking is based on the assumption that, as sometimes they declare openly, the Anglo-American "paper empire" is going to collapse. They also believe that it is more and more difficult for the adventurists of the "Brzezinski gang" to launch another NATO attack, because of the increasing resistance within NATO itself. Besides, they see the most intense phase of Yugoslavia's isolation as a thing of the past. Russia, despite a public zigzag posture vis-à-vis Belgrade, has rejected any request from NATO to pressure Yugoslavia.

Even more dramatic is China's change in attitude. Only due in part to the U.S. bombing of their embassy in Belgrade in May 1999, the Chinese have stepped up support for Yugoslavia, culminating in the state visit of Li Peng, the chairman of the Chinese Parliament, to Belgrade in June 2000. There has also been a growing influx of Chinese workers into Yugoslavia, as well as financial support through credit lines from Beijing.

Furthermore, the promises of economic reconstruction made by Washington and the European Union to Yugoslavia's Balkan neighbors, turned out to be worthless. As soon as NATO took over Kosovo, the promises evaporated. A few, limited projects to reconstruct bridges and other infrastructure have been pushed by the Yugoslav government, and, of course, greatly amplified by Belgrade's propaganda machine.

Strategy of Tension

NATO's expectation of an early collapse of Yugoslavia following the bombings and the economic destruction, is no longer a real working hypothesis at this point. But if the expectations of a collapse have vanished, the machinery put in place around Montenegro, to "apply pressure" on Belgrade, has not vanished, and risks a collision course with Belgrade at any moment.

This "strategy of tension" is a dangerous and cynical strategy, which has many times almost created a bloodbath. On July 12, the only Montenegro press agency, Montenafax, reported that a coup d'état almost took place during the Monenegro Parliament's debate on the new electoral law in Yugoslavia, which would have made possible the re-election of Milosevic for another term, and would have reduced the power of the Montenegro Parliament (and therefore of Djukanovic also). The agency wrote: "The recent parliamentary session was held amidst raised combat readiness by Yugoslav Army units, which were awaiting an order to intervene militarily to resolve the political crisis in the republic on the expectation that Podgorica [Montenegro's capital] would declare independence. Army generals loyal to Milosevic had completed all preparations for the coup. All preparation had been conducted with the active participation of Yugoslav Prime Minister Momir Bulatovic, who had spent several days in Podgorica and kept an active communication with leading military officials in Podgorica and Belgrade during the session."

Prime Minister Bulatovic, a Montenegrin, gave a warning and a threat to Djukanovic, whose policy was labelled in an official statement as a "policy of discord, divisions, and conflict. . . . Its consequences could be disastrous for internal peace, order, and stability inside Montenegro. Stories they are spreading around the world that the Yugoslav army will attack Montenegro are untrue and unworthy." The Yugoslav Army, he said, will continue to "protect the borders of Yugoslavia," i.e., both Serbia and Montenegro.

At the same time, several Yugoslav military officers made some very tough statements on the war danger that the Montenegro situation would produce. "The leaders of Montenegro have undertaken a series of activities which directly undermine the country's defense system," said Army Chief of Staff Gen. Nebojsa Pavkovic on July 31. The NATO strategy could lead to new conflicts, and NATO "would inevitably be drawn into them. Losses could be extensive and victims numerous." Referring to the activation of the KLA in south Serbia, Pavkovic stressed that "the threshold of endurance of the Serbian people and other non-Albanian populations is low. The Yugoslav Army is ready and able to settle scores with all paramilitary and terrorist forces now." And one of Belgrade's top military commentators, Miroslav Lazanjski, called the same day for "microsurgical precision strikes against important targets in neighboring countries," to prevent them from making their air space available to NATO, as happened during last year's NATO bombings.

'Brother, It's Better for Me To Shoot You'

While the debate inside NATO over whether to go for a new war over Montenegro gets tougher by the day, it was a British newspaper, the *Independent,* that revealed what many observers already knew: that the British Special Air Services (SAS) special forces was training Montenegro special police for a clash with the Yugoslav Army. The SAS organized the war in 1993 between Muslims and Croatians in central Bosnia, by training and arming paramilitary gangs from both sides and setting them one against the other. A 15,000-strong special Montenegrin police corps (the Spezijalni), is being trained by the SAS for an armed confrontation with Serbia, and/or an internal bloody confrontation.

According to the *Independent,* the Spezijalni have been trained especially to fight other Montenegrins, the Seventh Battalion of the Yugoslav Army that is 100% composed of Montenegrins. The potential for an internal bloodbath implied in the SAS training of these extremist elements is illustrated clearly by the interview in which "an experienced officer in the Spezijalni, Velibor, 23, spoke of his time with the British unit: 'It was great. We learnt a lot,' Velibor stated. 'If somebody wants to harm our country, you have to shoot him. It doesn't matter if it's your friend or your father or your brother. My best friend—or he used to be, he joined the army and I joined the police—told me "brother, it's better for me to shoot you because then you can't shoot me." ' "

The paper interviews one of the Spezijalni's officers and explains that "the force will be the front line of defense if the Yugoslav President, Slobodan Milosevic, attempts to oust the separatist Montenegrin President, Milo Djukanovic, and replace him with a leader loyal to the union with Serbia." The *Independent* writes: "The SAS training includes hostage rescue. A key scenario played out by the anti-terrorist unit of the Spezijalni is how to react to an attempted coup by forces loyal to Mr. Milosevic." Psychologically, the Montenegrin trainees are considered capable of anything and, as a result of the SAS course, are proud to be considered "crazy," training without protective clothing and with live bullets, because "we have a heart, a big heart."

Documentation

Hanke's Currency Board Plan for Montenegro

On July 27, the government of Montenegro presented a bill calling for the establishment of a new "Central Bank." The official communiqué stresses that the new institution will function as a "Currency Board." The Bank is the project of Prof. Steve H. Hanke, official adviser of Montenegro President Milo Djukanovic. In a statement delivered before a U.S. Congressional committee in January, Hanke detailed his blueprint for a Montenegro "orthodox Currency Board System."

The new Central Bank is based on the concepts in raving monetarist Friedrich von Hayek's *Denationalization of Money*. It will have its legal headquarters, not in Montenegro, but in Switzerland! Montenegro would produce its own currency, the marka, which would be only nominally emitted by the Montenegrin government, being an instrument of the Swiss-based Currency Board. The government of Montenegro will be able to nominate only two of the board's directors, the others three "shall be citizens of the Group of Seven countries appointed by the Bank for International Settlements (BIS) in Basel, Switzerland." If the Currency Board does not keep the imposed exchange rate, it will be "subject to legal action for breach of contract according to the laws of Switzerland." The bank notes cannot be printed in Montenegro, but outside.

The board's reserves will not be held in Montenegro, but shall be held on deposit at the BIS in Basel. The Montenegro government will be deprived of any even formal say on the activity of the board, to the point that the board "shall not hold securities issued by the national or local governments of Montenegro, or by enterprises owned by those governments." The government will have to change promptly its banking laws if they are not consistent with the Currency Board Law.

To be noted is Hanke's stress on the similarity between the Montenegro board and the Bosnia currency board, mandated by the 1995 Dayton Accords, which formally ended the war between Bosnia, Croatia, and Serbia.

It is atrociously cynical, that Hanke repeats on every possible occasion that the Currency Board shall be established in order to guarantee the "independence" of Montenegro.

Hanke's Testimony

The following is the testimony of Steve H. Hanke before the International Financial Institution Advisory Commission of the U.S. Congress, Jan. 3, 2000. Emphasis is added.

As President Djukanovic's economic adviser, I recommended that Montenegro adopt the German mark as legal tender. They did so on Nov. 2, 1999. I have also recommended that Montenegro install an orthodox Currency Board System (CBS).

The regime that I have recommended for Montenegro approximates Professor F.A. Hayek's notion of a competitive currency regime (F.A. Hayek, *Denationalization of Money. The Argument Refined: An Analysis of the Theory and Practice of Concurrent Currencies* [London: Institute of Economic Affairs, 1978]).

Under my proposed setup, Montenegro would produce its own currency, the marka, via a Swiss-based orthodox Currency Board System and use it as a unit of account for keeping the government's accounts. And in addition, all other currencies would be legal for private parties to make transactions, contracts, and for purposes of keeping their accounts.

The following law—and everything of importance is always contained in the Currency Board System laws, something professional economists rarely dirty their hands with—contains the elements of a Montenegrin Currency Board System and the competitive currency regime I have recommended for Montenegro. It is important to stress that I have opposed all initiatives to issue a Montenegrin marka via a Montenegrin-based Currency Board System or central bank.

1. The Montenegrin Currency Board is hereby created. The purpose of the Board is to issue notes and coins in Montenegrin markas, and to maintain them fully convertible at a fixed exchange rate into a reserve currency as specified in paragraph 6.

2. The Board shall have its legal seat in Switzerland and shall be subject to the laws of Switzerland.

3. a) The Board shall be governed by five directors. Three directors shall be citizens of the Group of Seven countries appointed by the Bank for International Settlements (BIS) in Basel. Two directors shall be appointed by the Government of Montenegro, with one being a citizen of the Group of Seven countries and one being a citizen of Montenegro. The directors from the Group of Seven countries shall not be employees of governments or multi-governmental organizations. b) A quorum shall consist of three of the Board's directors, including at least one of the directors chosen by the Government of Montenegro. Decisions shall be by majority vote, except as specified in paragraph 15. c) The first two directors appointed by the Government of Montenegro shall serve terms of one and four years. The first three directors appointed by the BIS shall serve terms of two, three, and five years. Subsequent directors shall serve terms of five years. Directors may be reappointed once. Should a director resign or die, the BIS shall choose a successor to complete the remainder of the term if the former director was appointed by the BIS, or the Government of Montenegro shall choose the successor if the former director was appointed by the Government of Montenegro.

4. The board of directors shall have the power to hire and fire the Board's staff, and to determine salaries for the staff. The by-laws of the Board shall determine salaries for the directors.

5. The Board shall issue notes and coins denominated in Montenegrin markas. The notes and coins shall be fully convertible into deutschemarks (euros after July 2002). The notes shall be printed outside Montenegro. The Board may accept deposits of deutschemarks (euros after July 2002).

6. a) Initially, the reserve currency shall be the deutschemark, and the fixed exchange rate shall be one Montenegrin marka equal to one deutschemark. b) Failure to maintain the fixed exchange rate with the reserve currency shall make the Board and its directors subject to legal action for breach of contract according to the laws of Switzerland. This provision does not apply to embezzled, mutilated, or counterfeited notes, coins, and deposits, or to changes of the reserve currency in accord with paragraph 13.

7. The Board shall charge no commission for exchanging Montenegrin markas for the reserve currency, or the reverse.

8. The Board shall begin business with foreign reserves equal to at least 100% of its notes and coins in circulation and deposits with it. It shall hold its foreign reserves in securities or other forms payable only in deutschemarks or euros. These reserves shall be held on deposit at the BIS. The Board shall not hold securities issued by the national or local governments of Montenegro, or by enterprises owned by those governments.

9. The Board shall pay all net seignorage (profits) into a reserve fund until its unborrowed reserves equal 110% of its notes and coins in circulation and deposits. It shall remit to the Government of Montenegro all net seignorage beyond that necessary to maintain 110% reserves. The distribution of

net seignorage shall occur annually.

10. The head office of the Board shall be in Podgorica. The Board may establish branches or appoint agents in other cities of Montenegro. The Board shall also maintain a branch in Switzerland.

11. The Board shall publish a financial statement, attested to by the directors, monthly or more often. The statement shall appraise the Board's holdings of securities at their market value. An annual audit of the Board shall be made by an international audit firm and shall be published by the Board.

12. The Board may issue notes and coins in such denominations as it judges to be appropriate.

13. Should the annual change in the weighted average of the consumer price index for the member countries of the European Monetary Union fall outside the range 5% to 20% for more than two years, or 10% to 40% for more than six months, the Board must, within sixty days, either: a) devalue (if the change in the index is negative) or revalue (if the change in the index is positive) the Montenegrin marka in terms of the reserve currency by no more than the change in the index during the period just specified, or b) choose a new reserve currency and fix the exchange rate of the Montenegrin marka to the new currency at the rate then prevailing between the new reserve currency and the former reserve currency.

14. If the Board chooses a new reserve currency in accord with paragraph 13, it must convert all its foreign reserves into assets payable in the new reserve currency within one year.

15. The Board may not be dissolved nor may its assets be transferred to a successor organization unless all of the following conditions are satisfied: 75% of the members of the Parliament of Montenegro approve, the President of the Republic of Montenegro approves, and all of the directors of the Board approve.

16. The Board may accept loans or grants of reserves from multi-governmental organizations or foreign governments. During the life of the Board, the cumulative value of these loans and grants shall not exceed 130 million deutschemarks valued in 1999 deutschemarks.

17. Exchanges of currency by the Board shall be exempt from taxation by the Montenegrin governments.

18. Both Montenegrin markas and deutschemarks (euros after July 2002) shall be legal tender for paying taxes and settling debts in Montenegro, and these legal-tender currencies shall be the only currencies used for final settlements in the payments system of Montenegro. However, Montenegrin markas and deutschemarks (euros after July 2002) shall not

Hanke Denounces Plato on Financial Sovereignty

The control of a nation over its currency is one of the tenets of a sovereign republic, while the market's "freedom" is a way to foster oligarchic despotism. Prof. Steve H. Hanke, in an article titled "Reflection on Exchange Rate Regimes," April 17, 1999, traces the roots of state intervention in establishing currency exchange control back to Plato, "the father of statism." In a rather confused, enraged assault on the great philosopher, Hanke writes:

"The pedigree of exchange controls can be traced back to Plato, the father of statism. Inspired by Sparta's of Lycurgus [sic], Plato embraced the idea of an inconvertible currency as a means to preserve the autonomy of the state from outside interferences. It is no wonder, therefore, that the so-called Red-Brown coalition in the Russian Duma [lower house of Parliament] has rallied around the idea of exchange controls and an inconvertible ruble. This also explains why the leadership of Beijing finds the idea so user-friendly."

Plato is so dangerous still today, according to Hanke, that he is to be considered ultimately responsible for Malaysia's currency controls. "Alas Malaysia's mercurial Prime Minister, Mahathir Mohamad, imposed draconian controls on Sept. 2, 1998."

What Plato Said

Here is a relevant excerpt from Plato's The Laws*:*

"The citizen of the ideal state will require "a currency for the purpose of every day expenses; This is practically indispensable for workers of all kinds and for such purposes as the payment of wages to wage earners. To meet these requirements, the citizens will possess a currency which will pass for value among themselves, but will not be accepted outside their own boundaries. But a stock of some currency common to the Hellenic world generally, i.e., of international currency, will at all times be kept by the state for military expenditures or official missions abroad, such as embassies, and for any other necessary purposes of state. If a private citizen has occasion to go abroad, he will make his application to the government and go; and upon his return if he has any foreign currency left over in his possession, he will hand it over to the state, receiving in exchange the equivalent in local currency.

"If he be found to be secreting it, let it be confiscated to the treasury; and let any who is privy to the act and conceals it, be liable equally with the importer to curse and reproach, and in addition to a fine of amount no less that the amount of foreign currency imported."

be forced tender for contracts between private parties. Private parties shall be free to contract among each other in any currencies they wish to specify.

19. The Montenegrin Currency Board Law shall take effect upon its passage by the Parliament of Montenegro. (Note: The Parliament of Montenegro must amend the laws governing the banking system, the payments system, and contracts, so that they are in accord with the Montenegrin Currency Board Law).

The Real Target Is National Sovereignty

What follow are quotes from some of the Steve H. Hanke's articles and interviews concerning his (and his sponsors') Balkan strategy. In 1990-91, Hanke was the adviser to the Vice President of Yugoslavia, Zivko Pregl. At that time he pushed to impose upon Belgrade something as close as possible to a Currency Board System. The main point was that the National Bank of Yugoslavia could not be used to issue credits, or favor investments, or intervene in the country's economy in any way. Hanke's strategy at that time did not work. Hence his fury, not so much over Slobodan Milosevic's crimes, but at the resistance in Belgrade to the currency board scheme. Actually, according to reports, Milosevic had been trying to follow Hanke's recipe, applying a monetary "reform" in 1994 that was to faithfully follow the plan published by Hanke and Kurt Schuler in 1991, under the title "Monetary Reform and the Development of a Yugoslav Market Economy."

"Disarm Milosevic's Money Machine," *Forbes,* July 5, 1999.

A few weeks after NATO took over Kosovo, Hanke, a member of the G-7 Council Steering Committee, stated the real goal of the bombing campaign: The target was not so much Milosevic and his regime, but the National Bank of Yugoslavia and the financial sovereignty of the country. Yugoslavia must be deprived of its financial and economic sovereignty, to be substituted by a Currency Board System. Interestingly, Hanke identifies himself with the 14th-Century oligarchical Republic of Venice fighting against the Serbian "counterfeiter."

Here are excerpts from his article:

"How can the G-8 [Group of Eight] help reverse this terrible damage to Yugoslavia's economy and to its people's confidence in their financial system? The only way to guarantee sound money is to dump the National Bank of Yugoslavia and the dinar and replace that currency—literally, in people's wallets—with the German mark. The G-8 stability pact must insist that the mark become official, and there should be no assistance to Belgrade until this happens. Such a mandate would be analogous to the provisions in the Dayton Accords providing for sound money in Bosnia.

"Long before NATO struck Yugoslavia, Slobodan Milosevic and his henchmen had hyperinflated and destroyed the country's economy. A peace agreement aimed at ending the crisis must, therefore, disarm both Milosevic's military machine and his money machine, the National Bank of Yugoslavia. I urge the G-8, as it develops its plan, to focus on imposing sound money on Yugoslavia. The great Austrian economist Ludwig von Mises was right when he said that sound money belongs in the same class as constitutions and bills of rights.

"In the past, Milosevic took his cue from his own country's history. The old Serbian kings were notorious coin-clippers. As long ago as the early 14th Century, King Milutin minted imitation Venetian silver coins at Novo Brdo and Prizren, located in what is now Kosovo. Venice banned the fakes. The contemporary rulers of Yugoslavia have proven just as untrustworthy with money. From 1971, when President Nixon slammed the gold window shut and devalued the dollar relative to gold, through 1991, the year Yugoslavia broke apart, that country's annualized inflation rate was 76%. [Milosevic's] monetary crimes were first uncovered in 1991, when the federal government of Prime Minister Ante Markovic discovered that late in 1990 the Milosevic-controlled Serbian parliament had secretly ordered the Serbian National Bank (a regional central bank) to issue $1.4 billion in credits to friends of Slobo. That illegal plunder sabotaged the Markovic government's teetering plans for economic reform."

Interview with Voice of America, July 28 1999.

Hanke: "The Yugoslav dinar is poison. It has been since 1971 the world's worst currency. There is no currency, even in Africa, that is worse than the Yugoslav dinar. There are really only two good things in the Balkans right now from the economic point of view. And that is the Bosnia marka and the Bulgarian leva. Because all the other currencies are really junk currencies. They are fifth-rate currencies."

Voice of America: "Under the Currency Board System, a government's hands are tied. Currency can be issued only if there are foreign reserves available to match the domestic money. In both Bulgaria and Bosnia, the domestic currencies are linked to the German mark. Mr. Hanke believes it is vital that the foreign reserves necessary to back up Montenegro's proposed currency be kept in Switzerland—or at least outside Yugoslavia. Three of the proposed five members of the board would be appointed by Western governments."

"Montenegro, the Next Balkan Hot Spot," *Forbes,* Sept. 6, 1999.

Just one week before being officially appointed Montenegrin President Milo Djukanovic's economic adviser, Hanke gave his ultimatum to those in the United States who are still timid about supporting his currency war. Either the United

States support the establishment of the Currency Board and Montenegro's independence from Yugoslavia, or there will be "more blood spilled in the Balkans." Of course, his is exactly the approach that would lead to a new bloodbath, given that possibly up to 50% (some sources say more) of the Montenegrins—regardless of their opinion of Milosevic—do not want to break up the Federal Republic of Yugoslavia. Hanke writes:

"Last month Montenegro, one of the two remaining republics in Yugoslavia, threw in the towel on the Yugoslav federation. Montenegro has suffered enough economic hardships. Since 1991 the dinar has been devalued 18 times, with 22 zeros having been lopped off that unit of account; another devaluation is in the cards. . . .

"Montenegro, where I operate as President Milo Djukanovic's economic adviser, is demanding a new, looser confederal relationship with Serbia, one in which the two would be equal and sovereign states. This would allow Montenegro to have its own sound money and free-market economic system. Belgrade has until the end of September to respond. If it rejects Montenegro's proposal, Montenegro will hold a referendum on total independence. . . .

"In principle the U.S. is not opposed to a new confederation, because 'unity' would be preserved. However, the Clinton Administration has reservations about a separate currency for Montenegro, particularly since the Montenegrins want to establish a currency board. Under the proposed plan, a Montenegrin marka would be fullly backed by deutschemark reserves and trade freely at a fixed 1 to 1 exchange rate. . . . The Clinton Administration insists that certain conditions must be met before a currency board can work. What nonsense! The Dayton Accords mandated that Bosnia install a currency board, which it did successfully in 1998; so did Bulgaria, in July 1997. In both cases, none of these conditions had been satisfied. Bulgaria's currency board has been a roaring success. And the Bosnian board represents perhaps the only institution in the country that is free of corruption. To conclude that Montenegro is the next Balkan hot spot is an understatement. It's time for the U.S. to defuse the time bomb. The U.S. must abandon its Yugoslavia policy of unity at all costs and support Montenegrin independence before—not after—more blood is spilled in the Balkans."

"Yugoslavia Destroyed Its Own Economy," *Wall Street Journal,* April 28, 1999.

In January 1994, Hanke confesses, he received a "congratulatory phone call" from Slobodan Milosevic's Belgrade. In the commentary quoted below it is clear that Hanke could not hide, even five years later, and despite all his verbal attacks on Milosevic, his satisfaction. In fact he continually stresses how his recipe worked in making Milosevic's "superdinar" more stable. The only real problem Hanke has with Milosevic's reform, is that the National Bank of Yugoslavia did not became "transparent" enough, i.e., was not dismantled. This—and not any anti-Milosevic slogan—is still the *conditio sine qua non* of Hanke and his sponsors, to lift the sanctions on Yugoslavia.

"On Jan. 6, 1994," Hanke writes, "the dinar officially collapsed. The government declared the German mark legal tender for payment of all financial transactions, including taxes. With the ultranationalist Mr. Milosevic at the controls, this monetary arrangement was bound to be short-lived. And it was. In a desperate attempt to stop the monetary chaos, the National Bank of Yugoslavia announced a major currency reform on Jan. 24, 1994. A 'superdinar' was introduced, pegged to the deutschemark at a rate of one to one. That made the superdinar worth 13 million old dinars. In less than a month, an incredible 15 zeros had been slashed from the dinar.

"Shortly after the first superdinars hit the streets, I received a congratulatory phone call from Belgrade. Allegedly, the superdinar system had been patterned after the currency board blueprint in my 1991 book, *Monetary Reform and the Development of a Yugoslav Market Economy*. I was incredulous. An orthodox currency board system in Mr. Milosevic's Belgrade? After all, that would have required all the dinars to be fully backed by German marks and to trade freely at a fixed exchange rate with the mark. In addition, the National Bank of Yugoslavia would have to be transparent. But there was absolutely no transparency in the new setup; the superdinar 'currency board' was as phony as a three-dollar bill.

"[However,] the bogus superdinar system did end the hyperinflation. Monthly inflation plummeted from 312 million percent in January to only 2,143% in February, and –6.2% in March. But by late 1995, the flaws in the phony currency-board system were there for all to see. Measured against the dollar, the superdinar was devalued by 62.6% on Nov. 26 and by 57.9% in April 1998. Today the dinar is trading on the black market at less than half its official value of six dinars to one deutschemark. Slobodan Milosevic should be put in the dock on yet another human rights infraction.

"Is there a moral in all this for Russia? The IMF granted Russia full membership on June 1, 1992. Since then, the Russians have played a cat-and-mouse game with the IMF, while citing that revered institution the way they used to cite Karl Marx. The ruble and the economy have reached depths not dreamed of in 1992, and Russian nationalism is growing. There are too many Yugoslav ingredients in the Russian powder keg for comfort. . . ."