

AUGUST 2007

A Tribute: Dr. Kurt Richebächer

 Wilfred J. Hahn
 whahn@hahninvest.com

Last Warning

"From the global monetary perspective, the most important, and also the most dangerous, part of the global capital flows is the 'policy-driven' component, referring to the dollars that foreign central banks purchase and recycle into U.S. bonds."

Dr. Kurt Richebächer,
February 2007

It doesn't seem just: The patriarch of the current "anti-bubble" camp," Dr. Kurt Richebächer, has died at age 88. He did not live to see his long-running warnings come to be vindicated. Just as he fell ill, events began to cascade into the vicious credit crash that erupted this past August.

Kurt Richebächer was well known around the world as an authoritative financial economist and author subscribing to the Austrian School. He had an illustrious career; his public profile spanning six decades, leaving few contemporaries. After earning his Doctorate in Economics from the University of Berlin, he quickly established himself as one of the most influential voices on economic policy in West Germany while a financial journalist. He was appointed a Director of the Dresdner Bank in 1964, serving as its "lightning rod" Chief Economist.

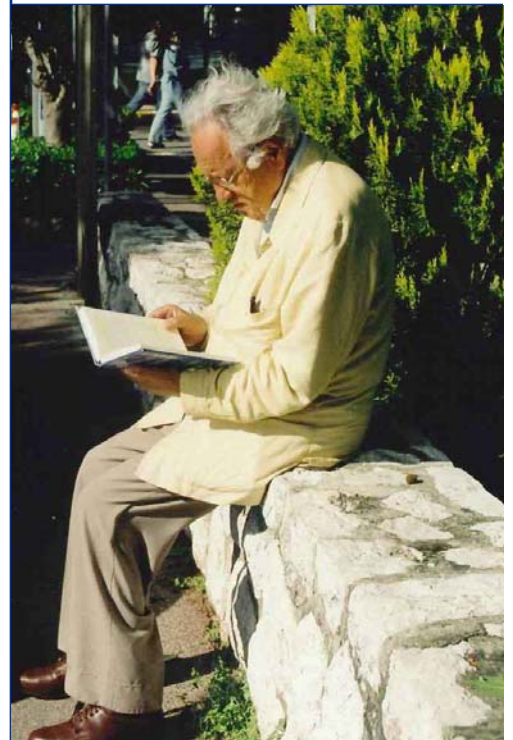
His outspoken and incisive "no holds barred" approach often raised the hackles of government leaders. At one point, then Chancellor Helmut Schmidt reputedly asked the head of Dresdner Bank, Jürgen Ponto, to quell Kurt's incendiary criticism of his government. Ponto then set up Richebächer with his own independent newsletter as Kurt's analysis and insights were widely respected.

Dr. Richebächer was quoted around the world, frequently contributing guest articles in prominent publications. His commentary was so influential—and provocative at times—central bankers on both sides of the Atlantic paid attention to him. At his retirement party from Dresdner Bank in 1982, no less than Otto Pohl (then head of the West German Bundesbank), Paul Volcker of the US Fed and other well-known economic luminaries attended. Speaking at this occasion, Volcker said, *"Sometimes I think it's the job of each Fed chairman to try to prove Richebächer wrong."*

Kurt was one of the first broadly-known of the new breed of international financial economist. It was on his first transatlantic trip visiting the Fed in 1964, that an economist received him by the name of Paul Volcker. They became good acquaintances and kept in touch well into their later years.

Thankfully for another generation of investors, Kurt did not take down his shingle after he retired. He carried on his weighty newsletter, *Currencies & Credit Markets*, producing it faithfully for another 25 years. It continued to enjoy a solid distribution around the globe in various forms, most recently under the name *The Richebächer Letter*. Readers may sometimes have sensed an authoritative and prophetic aura in his writing ... as rumbling admonitions rolling down the slopes of Mount Sinai. The Doctor produced his last letter in February of this year.

Please see overleaf...



Excerpts from *The Richebächer Letter*, Feb. 2007

"Major asset bubbles have always developed in times of low inflation, overly loose monetary policy and capital inflows."

"The decisive fact about the US economy is that its credit expansion has run completely out of control in relation to economic activity."

"As to liquidity, it is a fact that each major economic and financial crisis was preceded by "excess" liquidity. Just think of America's New Era during the 1920s and of Japan's

famous bubble years in the late 1980s. In both cases, prior excess liquidity vanished in no time when the existing asset bubbles began to burst. If growing asset bubbles are the channels to excess liquidity, bursting asset bubbles are the channels to liquidity destruction and excess debt."

"Measured by the associated credit expansion, it was the world's greatest asset and credit bubble in history."

"Inflationists fail to see that much of the credit being borrowed can never be repaid, because debt service depends on capitalizing unpaid interest."

It is a sure observation that many analysts around the world secretly relied upon Kurt for his cogent analysis and the sharply articulated causality supporting his views. He was the man that could validate theoretically what for many were just “gut feelings.” At heart, Richebächer was an economic theorist, capable of producing a clarity of logic that could be devastatingly crushing to his opponents. He was widely read, his prodigious library including many original editions of the classic economic authors.

Certainly no market timer and not at all disposed to the frenzied short-term trading fraternity and its cheerleading cadre of Wall Street economists, in latter years he was seen more as a bane to the broader financial community. Yet, due to Kurt’s brilliant and insightful analysis, there are today thousands of investors around the world who have been alerted to the unsustainable foundations to present-day monetary and financial follies.

Urbane and warmly affable in private, it sometimes seemed that his existence was lived entirely inside economic theorems and monetary mechanisms. His idea of prompting dinner conversation on occasion was to ask the question, “*What do you think of the economy?*” My wife, a photographer and homemaker for many years, faced that question numerous times. He was always ready for a debate, and seemingly never doubtful about the correctness of his opinions.

Kurt was a family friend. I came to know him and his wife Anne-Marie some two decades ago through a business partner, Albert Schwenzer. We had thought it would be a capital idea to have Kurt as an official advisor to our global investment firm. Albert, having been familiar with Kurt’s work, called him up cold. We struck a deal. Kurt would be an official advisor. In return, I would edit and translate his newsletter for the English-speaking market.

At first, his newsletter would arrive across the fax in bits, some of it in German. Prior to that time, the English-version of the letter had been translated from German. Already verging on 70 and also fluent in French and English, it wasn’t long before his English writing gained great vigor. I continued to help on Kurt’s letter as associate editor for some 6 years alongside responsibilities as chief and CIO of Canada’s largest global investment group. Eventually, I could no longer spare the time and Kurt soldiered on. In the meantime, I had gained a most invaluable education for which I will remain grateful.

Over the years we remained friends, visiting in Frankfurt, Cannes and Toronto. After his wife Anne-Marie passed away in 1994, he stayed with us more frequently, even braving

cold Canadian winters for New Years’ companionship. We’d take long drives and talk about economics and markets. (What else was there to talk about?) I might at best get a few points in with him from time to time. With his irrepressible intellect, he could bowl anyone over with his torrential logic. Sometimes, even if you disagreed on a point, interjecting with ever louder counterarguments, you’d simply have to step down. That was Kurt ... yet a truly lovable character.

In recent years, Dr. Richebächer became ever more despondent about the runaway financial inflation he was seeing in America ... and nascently, also around the globe. He was sometimes apoplectic, disbelieving that such recklessness were possible. He’d often mention how few financial economists were left on Wall Street and its sister centers around the globe who knew anything about theory and causality. Without such understanding, he regarded the quantitatively-driven research of Wall Street as so much voodoo.


He found less and less contacts in financial circles that he could dialogue with. On one phone call a few years ago, he said something to me that I will no doubt continue to cherish, though surely undeservedly: “*You are the last one in North America that I can talk to.*” But now this thudding thought: What great eminence now remains for us to talk with?

The Doctor—a bright beacon, an anchor of sensibility, a purist in theory—is gone. He now leaves us “shadow Austrian economists” to make our own way. One wonders if there are any that could assume his mantle. Most contenders seem too enslaved to the readership survey or the sensationalist media sound bite.

No, Kurt Richebächer was an original. There can be no copies.

Thankfully, many of Kurt’s newsletters are text book material. I have kept them all ... every one of the past few decades. In the future, should financial conditions become even more raucous and banal, I will be reading them. They will be sure to help guide a proper, theoretical foundation from which to decipher current economic developments.

Hopefully, the Good Lord will have some new work worthy to occupy Kurt’s talents in the beyond. There may be no more financial malfeasance to contend with, nor monetary corruption born of fractional reserve banking systems. But perhaps he will be busily studying the workings of an eternal economy, having finally found the perfect Austrian School system.

Kurt leaves behind two sons—Thomas in Colorado, USA and Axel in Königstein, Germany—one daughter, Sabine in Zurich, Switzerland, and five grandchildren. 



is published and distributed by HAHN Investment Stewards & Company Inc., serving to provide comment and analysis on important economic and investment issues of relevance to general investors.

HAHN INVESTMENT STEWARDS & COMPANY INC.

Investment Counsel & Global Asset Management

Ontario • British Columbia

Phone: (888) 957-0602 e-mail: globalspin@hahninvest.com www.hahninvest.com

This report was produced by: *HAHN Investment Stewards & Company Inc.* Phone: 888-957-0602 and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice. © 2007 All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of *HAHN Investment Stewards & Company Inc.* The Global Spin® is published 12 times annually at an annual subscription price of \$250.

