

Bulgaria, The Next 20 Years?

Πώς βλέπει ο Steve Hanke (καθ. Εφαρμοσμένων Οικονομικών στο πανεπιστήμιο Johns Hopkins στη Βαλτιμόρη και Senior Fellow στο Ινστιτούτο Cato της Ουάσιγκτων) τα επόμενα 20 χρόνια για την Βουλγαρία.

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First things first. My congratulations to Capital for producing a high-quality weekly for twenty years. That is a real accomplishment, and one that I hope Capital repeats during the next twenty years.

With those good wishes, I move on to address my subject: **Bulgaria**, the next twenty years? But, to do that, we must take an all-important brief flash-back to roughly the time when Capital was born, twenty years ago. Communism had just

collapsed. But, thanks to decades of communism, **Bulgaria's** institutions were in ruins – in a state of dysfunction, or worse.

The resulting distorted space that was left provided a perfect spawning ground for a pan-Balkan mafia of power, reach, creativity and venality. The civil war in Yugoslavia, which began in the summer of 1990, added high-octane fuel to the mafia's activities. As it turns out, **Bulgaria** was in the mafia's vortex. In consequence, corruption and criminality became **Bulgaria's** hallmark – damaging its reputation, among other things.

That was then. Where is **Bulgaria** now, and where is it going? Two articles in major international magazines last month answer that equation. The first appeared in London's Economist magazine on the 21st of September and covered the Delyan Peevski affair. The Economist concluded that Mr. Peevski "had become the symbol of everything that is wrong with Bulgarian politics." Need I say more?

Only four days later, the French review L'Express published a scathing exposé of the Ivan Danov affair, including copies of relevant official documents. It is alleged that Mr. Danov used his creative genius to defraud the French government. Yes, according to L'Express, Mr. Danov, who is currently **Bulgaria's** Minister of Investment Planning, has happily collected French welfare benefits for being unemployed in France, while employed in **Bulgaria**.

Should criminality and the lack of the rule of law continue to lift **Bulgaria** towards the top of the corruption world ratings, the next twenty years would look rather gloomy. Indeed, corruption is the main cause of **Bulgaria's** hope deficit.

But, there is a brighter aspect to **Bulgaria's** picture. Shortly before Capital published its first issue, **Bulgaria's** monetary and fiscal institutions were badly malfunctioning. By early 1991, hyperinflation had reared its ugly head, with the monthly inflation rate peaking at 123% in February.

During a 1991 trip to Sofia, and in a monograph I co-authored with Dr. Kurt Schuler in 1991, Teeth for the Bulgarian Lev: A **Currency Board** Solution, I laid out a detailed plan to stop the hyperinflation with a **currency board**. Although the **currency board** was not adopted during **Bulgaria's** 1991 episode of hyperinflation, there would soon be another opportunity.

Bulgaria witnessed a second bout of hyperinflation in February of 1997, with the peak monthly inflation rate reaching 242%. During that episode, the authorities were more anxious to solve **Bulgaria's** monetary problems. While operating as President Stoyanov's advisor, I was gratified to finally witness the installation, in July 1997, of **Bulgaria's** **currency board**. Even more gratifying was the **currency board's** performance: it killed the inflation overnight.

Bulgaria's currency board is a shining example of how strong institutions can create stability in the face of political and economic turmoil. Since its introduction, the **currency board** has been refined, and the money and banking systems have been skillfully managed by the Bulgarian National Bank. The **currency board** institution is strong, automatic, provides discipline and allows **Bulgaria** to retain its monetary sovereignty. The system is one of the few solid institutions in **Bulgaria**. And, more importantly, it is supported by the public. In twenty years, the **currency board** system should still be a cornerstone for prosperity, and should still be providing **Bulgaria** with a positive unique selling proposition.

The **Currency Board** works, so don't try to fix it, as the saying goes.

So, there we have the main bad and good elements inherited from **Bulgaria's** recent past. Looking to the future, what are the good elements that lead to prosperity? Well, the story is always the same: if you increase economic freedom and the rule of law, and prosperity will follow. This is the model that has been successfully applied in countries like **Singapore**. Indeed, by embracing these principles, **Singapore** has gone from abject poverty, at its founding in 1965, to become one of the richest in the world.

And, how can this model be applied in practice, in a small developing country like **Bulgaria**?

Well, the following four principles summarize how **Singapore**, circa 1965, did it: Embrace stable money. While stability might not be everything, everything is nothing without stability. (Fortunately, **Bulgaria** has already achieved this via the **Currency Board**).

Reject foreign aid, bail-outs, and subsidies. These handouts only lead to more corruption.

Increase economic freedom and competition via light taxation and regulation, with completely open and free trade.

Emphasize on personal security, protection of private property and public order: without the rule of law, the three principles listed above are impossible to achieve.

Some skeptics might argue that because **Bulgaria** is a small and poor country, it is doomed to poverty and corruption. Nonsense. **Singapore** is even smaller, and was even poorer in 1965, than **Bulgaria** is. **Singapore** applied these principles and transformed itself. If **Bulgaria** applies these principles, too, in twenty years time, it could be well on its way to such a turnaround. The choice is for **Bulgarians** to make, or not make.

The key for **Bulgaria** is to look inward, not to the EU or Russia or any other outside power for help. Build strong, Bulgarian institutions – like the **currency**

board – that promote economic freedom under the rule of law. Such strong institutions are more powerful than self-serving bureaucrats, more powerful than corrupt politicians, and, yes, more powerful than the mafia. Here's to twenty years of economic freedom and the rule of law for all **Bulgarians**.