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The path ahead for Bulgaria: Through the eyes of Steve Hanke

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Interview

1 – What do you remember about Bulgaria since you came here for the first time?

Steve H. Hanke (S.H.H.): *In January 1990, I became the chief economic adviser to the reform government of Ante Marković in the Socialist Federal Republic of Yugoslavia. Shortly thereafter, Mrs. Hanke and I began to visit Bulgaria. In those early years of visiting Sofia, we always stayed at the Sofia Hotel Balkan; remembrances include: many hospitable Bulgarians who took very good care of us; excellent yogurt; and great opera. Outside the hotel, it was impossible to find edible restaurant food. This was striking given the excellent reputation of Bulgaria's cuisine. And that was not all that was in short supply. I recall the first time Mrs. Hanke and I visited TZUM. There were simply no goods. Also, the dilapidation of the buildings and capital stock in Sofia stood out. Lastly, the large packs of wild dogs that roamed Sofia's streets in the early 1990s left a lasting impression. Now, Mrs. Hanke and I have many Bulgarian friends. We have watched some of our friends' children grow from infancy to adulthood. While yogurt and opera are still first-rate, there are now many restaurants in Sofia that serve real Bulgarian cuisine. Moreover, the quality of the capital stock has improved. Just take a look at the airport, and compare it to old photos of the airport circa 1990! Dogs no longer roam the streets of Sofia, and there are many more stores, all filled with goods. So, things have changed for the better. That said, Sofia is still Sofia, and Bulgarians are still Bulgarians. Those are things Mrs. Hanke and I like. When we step off the plane in Sofia, we know we are in Bulgaria.*

2- Let's talk about the hyperinflation from the beginning of 1997. What were the reasons for this catastrophic crisis with melting down the savings accumulated for dozens of years, bank bankruptcies etc.?

S.H.H.: *Bulgaria's hyperinflation peaked at a monthly rate of 242% in February 1991. It was entered into the Hanke-Krus hyperinflation table, which*

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was published in the chapter titled "World Hyperinflations," in the Routledge Handbook of Major Events in Economic History (2013). Bulgaria is one of the fifty-eight countries in the rouges gallery that have experienced hyperinflation—an inflation rate in excess of 50% per month. The cause is always the same. I know, because I have anticipated, measured, and been involved in stopping more episodes of hyperinflation than any other living economist. So, just what causes hyperinflation? Hyperinflation occurs when government expenditures exceed, by a wide margin, the sources of government revenue from taxes and the issuance of bonds to the public. To fill the gap, the fiscal authorities issue bonds that are bought by the central bank. This causes the proverbial "printing presses" to be turned on. Then, the money supply surges, and with that, inflation surges, too.

3- Please, tell us more about the process of establishment the Currency Board in our country.

S.H.H.: My experience in Bulgaria illustrates the virtue of patience. When Mrs. Hanke and I first traveled to Sofia, our objective was to present the currency board idea to Bulgarian officials, intellectuals, and the general public. After our initial trips, we concluded that Bulgarian economists had never heard the words "currency board," and had no idea how such a monetary regime would work. In consequence, I developed a blueprint, including a draft law, for a Bulgarian currency board system. The blueprint was contained in a monograph, which was the first of three books I co-authored with Dr. Kurt Schuler on a currency board for Bulgaria. This first book was published in 1991 by the International Freedom Foundation in Washington, D.C. It carried the title "Teeth for the Bulgarian Lev: A Currency Board Solution." Armed with that book, Mrs. Hanke and I made several visits to Bulgaria after its publication. Even though the currency board generated genuine interest in certain circles, the official response was always negative. The oft-repeated refrain of the former Governor of the Bulgarian National Bank, Prof. TodorValchev, was typical of government officials: "thank you for your interest in Bulgaria and your proposal, but we know the realities of the local situation and have everything under control."

Once hyperinflation broke out in 1996, that refrain rang hollow, and things began to change rapidly. In December of that year, the Bulgarian Ambassador to the U.S. requested that I present my currency board ideas in Washington, D.C. In the same month, a pirated version of a book Dr. Kurt Schuler and I had co-authored in English was translated into Bulgarian, and it reached the top of the best-seller list in Sofia. In late February, Mrs. Hanke and I traveled to Sofia, and President PetarStoyanov invited me to become his adviser, to draft a currency board law for Bulgaria, and to explain to Bulgarian politicians and the public how such a system would halt hyperinflation.

The currency board was installed on July 1, 1997. Inflation and interest rates plunged immediately. I can recall the genuine pleasure (perhaps relief, too) President Stoyanov displayed when he congratulated me on the outstanding results produced during the first few months of the currency board. It was then that the President confessed that he had hoped the currency board would kill

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hyperinflation, but that he had had reservations and was amazed when the currency board worked even more rapidly than I had predicted. Much later, President Stoyanov confided to Mrs. Hanke and me during one of our private meetings that, without the stability created by the currency board, Bulgaria would have had much more difficulty entering the North Atlantic Treaty Organization (NATO) in 2004 and the European Union in 2007.

4- How did Bulgaria change after 1 July 1997? After the establishment of the Board?

S.H.H.: My main goal was to introduce a currency board that would kill hyperinflation and establish stability in Bulgaria. This goal was accomplished, and is to this day, recognized as a significant achievement. Indeed, after 20 years, the Bulgarian public still holds the currency board in high esteem. Also, in the academic realm, the Bulgarian Academy of Sciences and the Varna Free University have recognized my achievements by granting me doctorate degrees *honoris causa*.

After hyperinflation, Bulgaria's next big problem to solve was corruption. Mrs. Hanke and I alerted President Stoyanov to this problem. We presented him with hard evidence to support our concerns. Unlike hyperinflation, we had no magic potion to administer to the patient. We simply advised that the size and power of the State had to be cut back to combat corruption. If the power of the State was not reined in, we warned that corruption would be Bulgaria's Achilles' heel. As, I write today, I am certain of the truths we conveyed to the President almost 20 years ago.

6- It has always been interesting to me how Professor Hanke explains the still-existing nostalgia of Communism, socialist ideas, the big state, and so on in Bulgaria... And how can such nostalgia be overcome?

S.H.H.: I think the nostalgia for the Communist era stems from many complex forces. One factor is that for many generations Bulgarians have been under the yoke of outside powers: for example, Constantinople and Moscow. In the Communist era, Bulgarians dreamed of being free citizens, not just inhabitants of a non-free state. Well, now many perceive that they are under a new yoke—the yoke of Brussels. So, expectations haven't been met. And when expectations aren't met, people always reminisce about the "good old days." When it comes to remembering what things were like in the "good old communist days," people's memories play tricks on them. The scholarly literature in psychology has proven that: if you ask people what happened even a few months ago, their memories are very faulty. People tend to recall what they would have liked to have happened in the past, not what actually happened. One way to overcome the grip of nostalgia is to take a look at today's reality. To do so, we can look at "Hanke's Annual Misery Index: The World's Saddest (And Happiest) Countries," which was published in *Forbes* magazine (February 2018). The Misery Index is the sum of the unemployment, inflation, and bank lending rates, minus the percentage change in real GDP per capita. In my ranking of 98 countries, Bulgaria comes out with pretty respectable marks—

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thanks in large part to its currency board. Bulgaria ranks one notch better than Australia and only two notches behind France. That's not bad. Indeed, it's hard to believe, given what I first saw of Bulgaria many years ago.



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