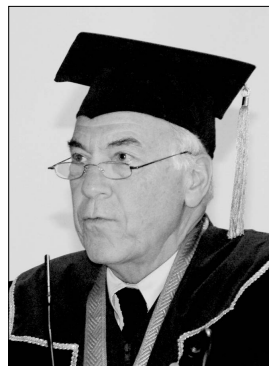


SOME REFLECTIONS ON BULGARIA AND THE WAY FORWARD

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Икономическата криза е и възможност за напредък. Това казва световноизвестният икономист проф. Стив Ханке. „Бащата“ на валутния борд в България стана Доктор хонорис кауза на Българска академия на науките. Според проф. Ханке, днес България трябва да се стреми към икономика, базирана на знанието и добавената стойност и растеж, осигурен от висококвалифицирани специалисти, създаващи иновативни продукти. По-долу публикуваме академичното слово на проф. Ханке, произнесено в София на 15.07.2013 при удостояването му с почетното академично звание и любезно предоставено ни от Българската академия на науката.



Presidents, Mr. Prime Minister, Madame Ambassador, distinguished guests and friends – allow me to begin my brief remarks by expressing my thanks to the Bulgarian Academy of Sciences and its Academicians. I am very moved and honored by this gesture.

Allow me to also acknowledge my good fortune and close collaborator in all matters that involve thinking: that is, of course, Mrs. Hanke. In Bulgaria, President Stoyanov observed our close collaboration and can certainly attest to the results of our joint efforts.

The Bulgarian Academy of Sciences was born in 1869, with the purpose of, among other things, signaling Bulgaria's independence from occupiers, and the beginning of its new life, with its own values. The Academy has proven to be a pillar of excellence and integrity – one that has withstood several wars, and, yes, several occupations since its founding.

Following its most recent liberation, Bulgaria was faced with an enormous task: it had to build and rebuild. To accomplish this, Bulgaria needed a stable anchor in those troubled times. This proved to be quite difficult, because Bulgaria faced an

uncertain situation at home – recall that the monthly inflation rate was 242% in February 1997. And, it faced regional problems, too – remember the troubles in what was then Yugoslavia.

Indeed, while stability might not be everything, everything is nothing without stability. So, in the midst of the turmoil of the 1996-97 hyperinflation episode, Bulgaria took the important first step towards financial stability.

After I made a detailed presentation to President Stoyanov in early 1997, the course was set for a stable money reform project – one that was totally new and revolutionary in this part of the world. Six short months later, in July 1997, the Bulgarian currency board was born and a stable anchor at last was established.

The currency board is a simple, transparent, rule-driven monetary regime. It operates on autopilot, with automatic adjustments keeping the system in balance. Most importantly, it delivers discipline to the spheres of money, banking, and fiscal affairs. These facts make the currency board a powerful force in the fight against fraud and corruption.

The currency board is Bulgarian. It has been skillfully refined and managed by the Bulgarian National Bank. Like the Bulgarian Academy of Sciences, the currency board is a strong, stable Bulgarian institution, which enhances the country's image, both at home and abroad.

To use the language of experts in the advertising field: the currency board system gives Bulgaria a unique selling proposition – something it would lose if, for example, it joined the European Monetary Union. Bulgaria should capitalize on its unique selling proposition, as Hong Kong has used its currency board to project itself as a regional center of financial stability and opportunity.

Bulgarians count on the currency board. They love the currency board, as they love other social and cultural aspects which are uniquely Bulgarian. Why, then, do so many of the country's best and brightest leave Bulgaria for what they deem to be a more promising future?

Well, there is a side of Bulgaria we might dread speaking of. But, the disease, however repulsive, must be named: yes, it is corruption. And, it is this corruption, in all its manifestations, that is creating a "hope deficit" in Bulgaria.

What can be done? On the 19th of June 2000 – only two days after the *Economist* magazine had published a glowing "Charlemagne" column about the President and Bulgaria – I wrote President Stoyanov a detailed memorandum addressing this important question. In my memorandum, I reminded him that Bulgaria's work had only just begun, and that it must attack its next big problem – corruption.

I counseled that Bulgaria should mount this attack by embracing Lee Kuan Yew's Singapore Strategy. If it did not, Bulgaria's image and reputation would be ruined by corruption, and its economic progress would set back for decades to come.

While Singapore might seem far removed from Bulgaria, its lessons are most relevant and revealing. Singapore gained its independence in 1965, when it was, in effect, thrown out of Malaysia.

At that time, Singapore was backward and poor – much poorer than Bulgaria. Indeed, Bulgaria's per-capita income today is twice what Singapore's was in 1965, adjusted for inflation. We hear a lot of talk about Bulgaria being the poorest country in Europe. Well, Singapore was in worse economic shape in 1965 – a barren speck on the map in a dangerous part of the world.

In addition to grinding poverty, Singapore had a problem that Bulgaria really doesn't have: ethnic strife. The problem stemmed from differences among Singapore's Chinese, Indian, and Malay populations. In 1965, these ethnic groups teetered on the verge of civil war – much like the Yugoslav situation in the early 1990s.

However, Singapore had a leader – Lee Kuan Yew – who had clear ideas about how to modernize the country. And, he was able to put his sound ideas to work. Of course, we all know the success that Singapore has realized today. Its per-capita income is now over \$47,000 – making it one of the richest country in the world.

Just what is the Lee Kuan Yew Singapore Strategy? Before I answer that question, allow me to make clear that, in my view, Lee Kuan Yew is one of the greatest politicians of the twentieth century. He embraced a few sound, fundamental policies; he knew how to convince the public that these would work to better their lives; and he knew how to deliver what he promised.

Now, for his plan; the Singapore strategy contains the following elements:

Number one was stable money. And, how did Singapore get achieve monetary stability? Like Bulgaria, Singapore started with a currency board system.

The second point was that Lee Kuan Yew ruled out passing the begging bowl. Singapore refused to accept foreign aid of any kind. This is a far cry from Bulgaria, where, when you pick up the paper, all you see are politicians and bureaucrats trying to secure foreign aid from someone, be it a foreign government or the European Union. By contrast, “no foreign aid” signs hung, and still hang, figuratively outside every government office in Singapore.

The third point was that Singapore strived to have first-world, competitive private enterprises. This was accomplished via light taxation and light regulation, coupled with completely open and free trade – in short, policies that enabled Singapore's private businesses to become Asian tigers.

The fourth point in the Singapore strategy was an emphasis on personal security, public order, and the protection of private property.

These were the four goals of Lee Kuan Yew's Singapore Strategy: stable money, no foreign aid, first-world competition, and law and order.

Now, to accomplish these goals, the key to the strategy was a “small,” transparent government – a minimalist government that avoided complexity and “red tape”. To implement this principle, Singapore appoints only first-class civil servants and pays them only first-class wages. Let me remind you that today, in Singapore, the Finance Minister's annual salary is 1.3 million euros, per year.

In exchange for these high salaries, the Singapore Strategy demands that the government run a tight ship, with no waste or corruption. Indeed, the Singaporean government has zero tolerance for corruption – any smell or whiff of corruption from a public servant, and that person is out of a job. Singapore's Corrupt Practices Investigation Bureau makes certain that the city-state's tough anti-corruption standards are enforced to the fullest extent of the law.

Let me give you an example of just how Lee Kuan Yew's Singapore Strategy works in reality. This will illustrate how the Singapore Strategy has carried a small country, with no natural resources (besides a wonderful harbor), to where it is today. To do this, let's look at how Singapore reacted to the recent financial crisis.

By 2009, the financial crisis had been felt by every economy around the world. The Chinese word for "crisis" actually means two things: it not only means "crisis"; it also means "opportunity." The Singaporean government clearly understood this principle, and by May of 2009, it had swung into action. Instead of whining, or just talking and doing nothing, Singapore formed an Economic Strategies Committee of twelve experts – which would develop Singapore's plan to respond to the economy's turmoil and the opportunities it presented.

By January 2010, the committee had submitted its report – a report which I always carry with me, literally in my briefcase. Singapore promptly responded to the Committee's plan. The essence of the report is a call for Singapore to lean more towards a knowledge-based, high-value-added economy: growth through skills, innovation, and the commercialization of research and development. In addition to enhancing skills and encouraging innovation, the report calls for Singapore to rely on market forces and the price system to restructure the economy.

Yes, the market is the guiding principle of Singapore's economy, as Lee Kuan Yew's 1965 manifesto provides the guiding principles of Singapore's government. Indeed, the key to understanding the Singapore Strategy is to realize that it's a strategy in which the Singaporean government is mandated to produce market-augmenting policies that encourage economic growth.

By embracing Lee Kuan Yew's Singapore Strategy of stable money, no foreign aid, first-world competition, and law and order; by embracing the free market as a guiding principle for the economy; and by demanding a government that is absolutely free of waste and corruption, Singapore has transformed itself from a poor, barren speck to a global financial center. Indeed, a recent survey ranking the world's top five financial centers put Singapore as number one – ahead of Switzerland, Hong Kong, London and New York.

Today, Singapore is one of the freest, most flexible and prosperous economies in the world. Indeed, both the *Index of Economic Freedom* and the *Economic Freedom of the World* report rank Singapore as the second freest economy, while the World Bank's *Doing Business 2013* report ranks Singapore first.

If Bulgaria were to embrace the Singapore Strategy, it would certainly climb these rankings very rapidly. This would work wonders not only for Bulgaria's economy, but also for its image. Corruption and poverty would decrease, income and growth would increase, and Bulgaria's hope deficit – like its hyperinflation – would eventually become a thing of the past. Indeed, the economic and social benefits would be felt by all Bulgarians.

To close, let me return to the report of Singapore's Economic Strategies Committee, because the Committee's recommendations are related to the Academy, specifically. The report recommended that Singapore "add to the critical mass of talent in science and engineering, design, finance, and start-ups that Singapore needs to be a serious player in the knowledge-based economy." This advice is key, not only for Singapore, but also for Bulgaria.

So, we end where we began. Let me remind you of Sir Hugh Rigby, surgeon to King George V, who was once asked: what makes a good surgeon? Sir Hugh replied, "...there isn't much to choose between surgeons in manual dexterity. What distinguishes the great surgeon is that he knows more than other surgeons."

Yes, the Great Game is, in fact, a knowledge game. That's why the Bulgarian Academy of Sciences has endured, and that's why it must be central to the strategy for eradicating Bulgaria's hope deficit.

Thank you, ladies and gentlemen.

NOTES

1. Steve H. Hanke is a Professor of Applied Economics at the Johns Hopkins University in Baltimore, MD, USA and Director of the Troubled Currencies Project at the Cato Institute in Washington, D.C., USA. He served as an adviser to President Petar Stoyanov from 1997-2002. An address delivered to the Bulgarian Academy of Sciences in Sofia, Bulgaria (15 July 2013) on the occasion of his receipt of a Doctorate Honoris Causa.