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Bulgaria's Lesson on Euro-madness

[A comment on the Wall Street Journal editorial of September 5, 2012, entitled *"Bulgaria's Lesson for Euro-Skeptics*"].

Bulgarian government's decision to postpone indefinitely the process of accession of the country to the Eurozone (scheduled up to now to have been implemented sometimes after 2015), despite the fact of its easily meeting all criteria of participation to the monetary union, is an indeed highly significant event and you are certainly right in pondering about its meaning (main editorial, 5 September 2012). Whether Bulgaria said in effect "get stuffed" to the currency club (HousePriceCrash.co.uk), or it simply wants to "get the advantages of Europe's monetary union without having to join the euro club's current agonizing about political or fiscal unions" (Mr. Hanke the designer of the present monetary regime in the Balkan country), the least that can be said is that the move is "a reaffirmation of their [Bulgarians'] own sovereignty to control their own monetary regime" (Hanke, endorsed by you).

It is certainly that, but also much more that flows from it.

Bulgaria operates since 1997 a currency board monetary system. Every Lev (the national currency) has to be backed by foreign exchange reserves at the national Central Bank. The Lev had been pegged initially to the German Mark and then to its supposed substitute, the Euro. Bulgaria has evidently benefitted from this monetary regime in ways that you well indicate in your article.

Now the broader and more important question is, does the Euro in itself have anything to do with this success story?

You suggest and maintain an affirmative answer, especially since your piece is aimed at the "Euro-sceptic" acceptation of the significance of Bulgaria's decision. And here I take issue with your analysis.

For, to begin with, the same basically result would have been achieved if the Bulgarian currency board pegged the Lev to the Swiss Franc, the Swedish Krona, the Chinese Wuan, the Australian Dollar or indeed, better, to the American dollar or, best, to the gold standard. For the point is the stability of the value and level of "rent" of money, nothing else.

There are four distinct things that seem to be often confused. One is a strict and sound monetary policy. Another is the respective merits and dermerits of a fixed exchange rates system versus a floating one. A third relates to the nature and desirability of currency unions. And the fourth and very different concerns the sustainability of the Euro-project.

One. The perverse idea that money is an independent variable in an economic system and that it consequently could be manipulated (with the best no doubt, if silly, intentions) by governments via their Central Bank subsidiaries is a barbaric conception of a barbarous century – that 20th century that marked the end of the European era in history with an eruption of end-of-time phenomena, complete with inhuman, utopian, eschatological ideologies, experimental and "modernistic" art, moral and religious confusion, the retreat of genuine philosophy, existentialism and Keynesianism, collapse of the nationalistic state and all-out wars the like of which (in size and kind) mankind had never before suffered.

Some relics of the economic barbarism still remain under the masque of populist policies that enervate the individual's creative activity and thus impede the intensification and full sway of economic dynamism. But there is all the same going on an irrevocable reversal back to classical (in all senses) theory including adequate recognition of the validity of the law of monetary-real economic interaction. The amount and "easiness", the value and rate of interest, the financial means more generally, available in a given economy at a given state, are dependent on the volume, nature and nexus of human activity. There is a natural amount of money and a natural rate of interest for every system of free economy, that are in equilibrium to the mass, intensity (and reasonable expectation of growth) of human activity. That is what a sound monetary policy is all about. And these determinations should be left fundamentally to the natural self-adjustment of a free system, no less than the processes of real economy. Monetary fine-tuning, just as any other standing and heavy regulatory intervention, implies a system in intensive care, not a vigorous self-adapting healthy organism.

Two. It follows from One, that the only appropriate system of exchange rates in free economies is the floating one. Quite simply, the internal and external value of money should be left to be equated by the ineluctable and flawless and rational market forces both ways.

The main rationale behind the urge to the adoption of a fixed exchange system regime is that it enforces necessary discipline (monetary and fiscal) on the governments of weaker, less competitive national economies. But a hugely better, more efficient and overall less costly correction is effected by simply letting them to drown under the ocean of their own people's rage at their incompetence and at the consequent national failure.

On the other hand, the accruing benefits (mostly of economies in transaction costs and enhanced, relatively, price stability) from fixed exchange rates between similar, similarly organized and equally competitive, economies are minor relative to the risks and costs of the inherent instability produced by even this optimal form of "pegging". Economies are dynamic: what is equal now is at least differentially unequal next moment. A new rate adaptation should have then to be engineered, ideally at every change of equilibrium between the participating economies - which is the reductio ad absurdum of the idea of a fixed exchange rate regime, besides its being dramatically less efficient and rational compared to the automatic adjustments in a natural floating system. A free market system of independent national economies requires open borders in monetary matters as well, not a more or less common currency.

Three. A currency pegged to another is a special case of a fixed exchange rate regime. A currency board enhances the discipline introduced through the pegging by requiring that every monetary unit should be fully covered by appropriate reserves in the Central Bank of the country in question. All this can be easily achieved without any pegging and boarding – as it used to be done, say by the rigorous principle of convertibility to gold in the days of the gold standard.

A currency union is the highest absurdity in the barbaric economic theory of the 20th century. It implies the same value and interest, hence volume and easiness, of money across disparate economies. If two economies are similarly structured and with similar prospects of development, then they may be joined together in a monetary union provided (and this as a huge "provided") they both belong to the same geopolitical field *and* share the same geostrategic interests to such an extent that they may be willing to abandon to an essential degree their political independence and sovereignty. Such a combination of factors is extremely rare. In fact all significant monetary unions in history are consequent upon a war that integrates congenial spaces in a new state, thereby wielding a common interest among the variant members. Even this is an extraordinary event in human affairs.

Four. Kremlin is an odd bedfellow to freedom, but truth is stronger than repression. Russia Today is absolutely right when it does (suit itself to) suggest that the Euro “grand design is deeply flawed, it’s built on sand, it’s a catastrophe”.

Just that. Euro is a unique historical experiment in disastrous futility, it goes against the groin of all economic and political logic, it is sheer folly. The cart of a common currency with a centrally determined monetary policy has been put before the horse of state creation. Naïve or venal ideologues conceived of the Euro-zone as a building stone towards political integration, thus reversing the natural order of things. Common money is a manifestation of a common country, not a means towards it. Each national economy requires its own national currency.

The Euro-madness will cause terrible pain when it is unstrung - and it necessarily will. But it is madness squared to fantasize that this fact can be used as a reason for its continuation. This is simply an argument for temporary special interests, not for any national and healthy ones.

What made possible the original madness is a sequence of events that was seized upon by the ideologues of Europeanism to construct their utopian projections on present-day reality. The solid reality behind it was the failure of Germany to institute a new European order in the 2nd World War and the necessity, after that failure, to create under American leadership a European understanding and cooperation among victors and defeated peoples and countries in the subcontinent as a free world bulwark against Soviet Russia expansion. At the same time, Europe as a whole and, more painfully, the big European powers, are losing continually over a century now in the relative global distribution of economic and political power.

As part of the containment strategy adopted against the Soviet empire, and also in order to attempt to stem or reverse the decline, one was inclined or obliged to put up with a certain measure of ideological Europeanizing superstructure, in order not to disturb the difficult in itself task of convergence and compromise between very different national identities, conditions and interests. And this inclination or obligation appeared well founded because certain powerful political élites in Europe claimed that Europeanism as a dream was indispensable in establishing a functional common market. But the collapse of the Soviet Empire and the concomitant delegitimization of Communism as a revolutionary system of enforced revitalization for a declining Europe, delegitimized simultaneously Europeanism as an alternative system of European reawakening. For Europeanism is in truth and essence just another European eschatological ideology like Fascism, Nazism and Communism, the Big of the 20th century. But in the 90-'s the dream was shattered, and it was going to fast dissolve and the Europeans would be awakened to the historical reality that was evolving, while they were sleeping. The Euro-plan is the offspring of this panic: a last voluntaristic exhibitionism against reality in flagrant violation of economic laws, geopolitical logic and historical momentum. It is the spasm of dying "Europe".

And take due notice, it is a completely different process from the Euro-folly that of the tendency to adopt the same money on the part of a geopolitically established community of states under a hegemonic power. A paradigm case in history is the 5th century BC, golden age Athenian Empire. Athens imposed its own currency on the vast economically integrated area (the relevantly significant part of the world) held together by geopolitical affiliation and her own political attraction and military might. Today we are experiencing the globalized analogue of that case, with the USA in place of Athens as a world-hegemon. The tendency will be towards the adoption of the American dollar as a universal currency. The question of an American sound monetary policy is a different one. So far USA employs the ancient method of tribute collection in a modern variant: the bonds of the American state are the modern day equivalent of the Athenian collector triremes. There is a financial difference though: Athens was not in debt to anybody.

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