

The **Bulletin**

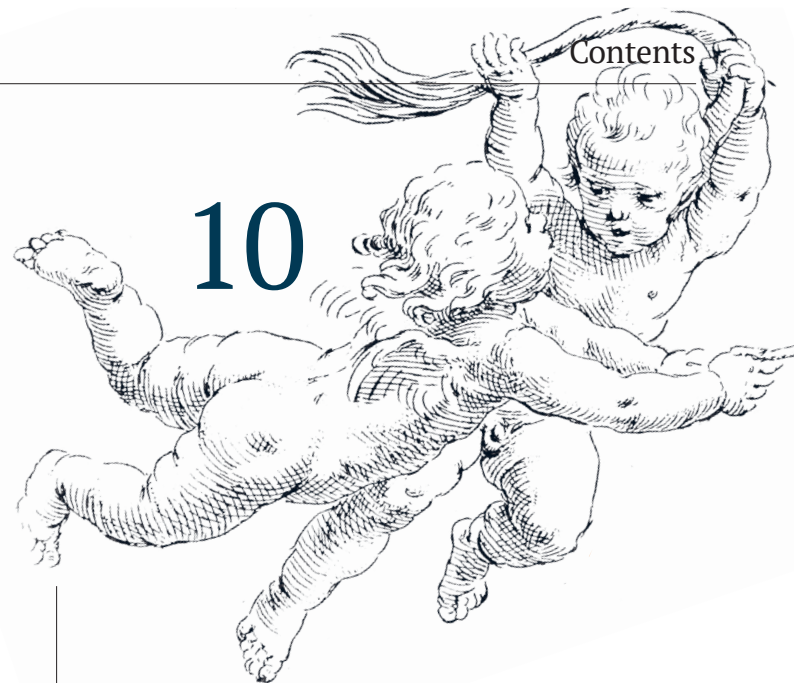
 **OMFIF**

Winter 2020
Vol.11 Ed.1

Eurovision

Saving the European project





The Bulletin

Winter 2020 Vol.11 Ed.1

- 4 ABOUT OMFIF
- 5 LEADER
- 6 REVIEW / AGENDA



Cover: Eurovision

- 10 **DOUBTS ENDURE OVER ECONOMIC AND MONETARY UNION**
David Marsh
- 13 **HOW TO FIX THE EURO AND WHY WE SHOULD**
Daniel Dăianu
- 14 **SPENDING QE SAVINGS ON GROWTH**
John (Iannis) Mourmouras
- 15 **UK REMAINS KEY TO CAPITAL MARKETS UNION**
Ellie Groves
- 16 **TWO CHEERS FOR EASTERN PROGRESS**
Beata Javorcik
- 17 **EAST EUROPE IN THE GREEN FINANCE VANGUARD**
Gábor Gyura
- 18 **EXPORT DYNAMISM KEY TO EUROPE'S FUTURE**
Pedro Duarte Neves
- 19 **BREXIT IS ONLY JUST BEGINNING**
Denis MacShane



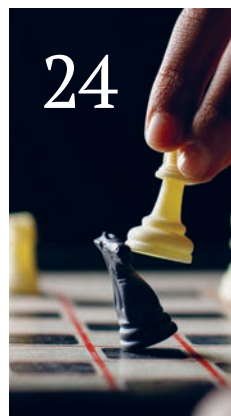
Cover image: Rape of Europa, circa 1636, Simone Cantarini, held in the Metropolitan Museum of Art

Money matters

- 20 **DEPARTURE FROM PATTERN OF STABILITY**
Juan Castañeda and Tim Congdon

Worldview

- 22 **DISSENTERS GONE AND POSITIONS VACANT**
Darrell Delamaide
- 23 **NEWER PENSIONS LOOK TO PRIVATE MARKETS**
Brian McMahon
- 24 **US-CHINA RIVALRY TO PERSIST THROUGH 2020**
Taimur Baig
- 25 **SOVEREIGN FUNDS INSULATE GCC STATES**
Krisjanis Krustins
- 26 **PENSION FUNDS FOCUS ON CLIMATE CHANGE**
Colin Robertson
- 28 **MORTGAGE LENDERS' ROLE IN EU CLIMATE GOALS**
Luca Bertalot



Inquiry

- 30 **MAKING THE LIRA 'AS GOOD AS GOLD'**
Steve Hanke
- 31 **CENTRAL BANKING TOME DESERVES WIDE AUDIENCE**
John Nugée
- 34 **OMFIF ADVISERS NETWORK POLL**
Priorities for the European Union



Making the lira ‘as good as gold’

Currency board would protect Turkey from devastating inflation



Steve Hanke
The Johns Hopkins
University

It is no secret that Turkish President Recep Tayyip Erdoğan aspires to become his country’s next sultan. But one substantial obstacle is blocking his path: the lira. Turkey’s coin of the realm is one of the world’s junk currencies, and it hangs like the sword of Damocles over Erdoğan.

For the decades of the 1970s, 80s, 90s and 2000s, Turkey recorded average annual inflation rates of 22.4%, 49.6%, 76.7%, and 22.3% respectively. Those horrendous numbers mask periodic lira routs. In 1994, 2000-01 and 2018-19, the lira has been devastated. But there is a way for Erdoğan to guard the currency from its downward spiral and suppress inflation. That path is paved with a currency board.

A currency board issues notes and coins convertible on demand into a foreign anchor currency at a fixed rate of exchange. The relevant monetary authority is required to hold anchor-currency reserves equal to 100% of its monetary liabilities. It generates profits from the difference between the interest it earns on its reserve assets and the expense of maintaining its liabilities.

By design, a currency board has no discretionary monetary powers and cannot issue money on its own credit. It has an exchange-rate policy – the exchange rate is fixed – but no monetary policy. Its operations are passive and automatic. The sole function of a currency board is to exchange at a fixed rate the domestic currency it issues for an anchor currency. Consequently, the quantity of domestic currency in circulation is determined entirely by market forces, namely demand for domestic currency. Since

the domestic money is a clone of its anchor, a currency-board country is part of an anchor country’s unified currency area.

Currency boards require no preconditions, can be installed rapidly, and have existed in around 70 countries. Government finances, state-owned enterprises and trade need not be reformed before a currency board can issue money. The first was installed in 1849 in Mauritius, then part of the British Indian Ocean Territory. No currency board has failed. This perfect record includes the ‘National Emission Caisse’ established in northern Russia in 1918 during the country’s civil war. The caisse issued ‘British rouble’ notes, backed by sterling and convertible into pounds at a fixed rate. The father of the British rouble was none other than John Maynard Keynes, at the time a British treasury official.

Despite the civil war, the British rouble never deviated from its fixed exchange rate. In contrast to other Russian roubles, the British rouble was a reliable store of value. Naturally, the British rouble drove other roubles out of circulation. Its life was unfortunately brief: the caisse ceased operations in 1920 after

allied troops withdrew from Russia. That said, it redeemed all the obligations presented to it before closing.

Looking to the yellow metal

One doesn’t need to reach far back in history to find a currency-board success story close to Turkey. Indeed, a relatively new currency board is located in Bulgaria, Turkey’s immediate neighbour to the northwest.

In 1997, hyperinflation gripped Bulgaria. The lev had collapsed, and the monthly inflation rate had soared to 242%. Then serving as an adviser to President Petar Stoyanov, I designed a currency board that was installed on 1 July. With that, the lev became a clone of the Deutsche Mark. Inflation was immediately defeated, lev interest rates plunged, a hard budget constraint was put on Bulgaria’s fiscal authorities, and the economy boomed. Since the installation of the currency board, fiscal deficits have been tightly controlled. Bulgaria’s fiscal discipline and debt reduction have made it a star performer in Europe.

In Turkey’s case, Erdoğan should install a gold-backed currency board. With a Turkish currency board, the lira would be tied to gold at a fixed exchange rate. Gold reserves would fully back the lira. The yellow metal is particularly attractive for countries like Turkey, since it is not issued by a sovereign and is highly revered. So, like gold, the lira would become an international currency that maintains its purchasing power over time. Indeed, the lira would be ‘as good as gold’.

● **Steve Hanke is a Professor of Applied Economics at the Johns Hopkins University and a Member of the OMFIF Advisory Board. He is the co-author of *Gelişmekte Olan Ülkeler İçin Para Kurulları (Monetary Boards for Developing Countries)*, published in Turkey by Liberte Publishing Group.**



COUNCIL



Meghnad Desai
House of Lords;
chairman, OMFIF
Advisers



Louis de Montpelliér
MontRoz



Otaviano Canuto
World Bank Group



Frank Scheidig
DZ BANK



Aslihan Gedik
OYAK Anker
Bank



Ben Shenglin
Zhejiang University
Academy of Internet
Finance



Robert Johnson
Institute for New
Economic Thinking



Gary Smith
Sovereign Focus



Hani Kablawi
BNY Mellon



Xiang Songzuo
International
Monetary Institute



William Keegan
The Observer



Niels Thygesen
University of Copenhagen



John Kornblum
Noerr



Ted Truman
Peterson Institute for
International Economics



Norman Lamont
House of Lords



Marsha Vande Berg
Stanford University



Kingsley Moghalu
Tufts University

CAPITAL MARKETS



John Adams
China Financial
Services



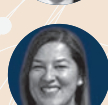
George Hoguet
CFA Research
Foundation



Yaseen Anwar
Industrial &
Commercial Bank
of China



Soh Kian Tiong
DBS Bank



Irena Asmundson
California
Department of
Finance



Stuart Mackintosh
Group of Thirty



Georgina Baker
International
Finance
Corporation



Paul Newton
London & Oxford
Capital Markets



Stefania Bielmeier
DZ BANK



Saker Nusseibeh
Hermes Fund
Managers



Hans Blommestein
Vivid Economics



Jukka Pihlman
Standard
Chartered Bank



Mark Burgess
Jamieson Coote
Bonds



Colin Robertson
SW1 Consulting



Michael Cole-Pontayn
Association for
Financial Markets
in Europe



Fabio Soacciavillani
Oman Investment
Fund



Thomas Finke
Barings



Lutfey Siddiqi
National
University of
Singapore



Gao Haihong
Institute of World
Economics and
Politics



Volker Wieland
German Council
of Economic
Experts



Christian Gärtner
DZ BANK



Katarzyna Zajdel-Kurowska
World Bank
Group



Trevor Greetham
Royal London
Asset
Management



Daniel Hanna
Standard
Chartered Bank

MONETARY POLICY



Iain Begg
London School
of Economics



Marek Belka
former prime
minister of Poland



Harald Benink
Tilburg University



Mario Blejer
Banco Hipotecario



Stewart Fleming
St Antony's
College, University
of Oxford



José Manuel González-Páramo
BBVA



Brigitte Granville
Queen Mary,
University of
London



Graham Hache
NIESR



Akinari Horii
The Canon
Institute for Global
Studies



Harold James
Princeton
University



Hemraz Jankee
formerly Central
Bank of Mauritius



Pawel Kowalewski
Narodowy Bank
Polski



Philippe Lagayette
formerly Banque
de France

NETWORK

Bahar Alsharif
David Badham
Franco Bassanini
Eduardo Borensztein
Consuelo Brooke
Colin Budd
Michael Burda
Shiyin Cai
David Cameron
Forrest Capie
Stefano Carcaseo
Desmond Cecil
Efraim Chalamish
Moorad Choudhry
John Chown
Vladimir Dlouhy
Obindah Gershon
Jonathan Grant
Peter Gray
François Heisbourg

Frederick Hopson
Matthew Hurn
Korkmaz Ilkorur
Karl Kaiser
David Kihangire
Ben Knapen
Ludger Kühnhardt
Celeste Cecilia Lo Turco
Bo Lundgren
Mariela Mendez
Murade Miguig Murargy
George Milling-Stanley
Winston Moore
José Roberto Novaes
de Almeida
Michael Oliver
Francesco Papadia
Robin Poynder
Poul Nyrup Rasmussen
Janusz Reiter

Anthony Robinson
Philippe Sachs
Nasser Saidi
Pedro Schwartz
Vilem Semerak
Song Shanshan
Marina Shargorodska
Paola Subacchi
David Suratgar
José Alberto Tavares
Moreira
Jens Thomsen
David Tonge
Jorge Vasconcelos
Gottfried von Bismarck
Jack Wigglesworth
Paul Wilson

ICY

Andrew Large
Hedge Fund
Standards Board

Gerard Lyons
Bank of China
(UK)

Rakesh Mohan
Yale University

Athanasios Orphanides
MIT Sloan School
of Management

Nagpurnanand Prabhala
University of
Maryland

Edoardo Reviglio
Cassa Depositi e
Prestiti

Olivier Rousseau
Fonds de réserve
pour les retraites

Miroslav Singer
Generali CEE
Holding

Shumpei Takemori
Keio University

Makoto Utsumi
formerly Japan
Finance Ministry

Tarisa Watanagase
formerly Bank of
Thailand

Ernst Welteke
formerly
Deutsche
Bundesbank

INDUSTRY & INVESTMENT

Andrew Adonis
House of Lords

Robert Bischof
German-British
Forum

Albert Bressand
European
Commission

Caroline Butler
Walcot Partners

Nick Butler
King's College
London

John Campbell
Campbell Lutyens

Mark Crosby
Monash
University

Hans Genberg
The Seacn
Centre

Steve Hanke
The Johns
Hopkins
University

Hans-Olaf Henkel
University of
Mannheim

Mumtaz Khan
Middle East &
Asia Capital
Partners

Joel Kibazo
JK Associates

Jürgen Krönig
Die Zeit

Oscar Lewisohn
Soditic

Boyd McCleary
39 Essex
Chambers

Luiz Eduardo Melin
International
Economic
Synergies

Willem Middelkoop
Commodity
Discovery Fund

Célestin Monga
African
Development
Bank

Danny Quah
Lee Kuan Yew
School of Public
Policy

Takuji Tanaka
Japan Finance
Ministry

Daniel Titelman
ECLAC

Pasquale Urselli
Mazars

Paul van Seters
Tilburg University

POLITICAL ECONOMY

Antonio Armellini
former
ambassador,
OSCE

Frits Bolkestein
formerly European
Commission

Laurens Jan Brinkhorst
University of
Leiden

Peter Bruce
Business Day

Jenny Corbett
Australia National
University

Maria Antonieta Del Tedesco Lins
University of São
Paulo

Hans Eichel
former German
minister of
finance

Jonathan Fenby
TS Lombard

Jeffrey Frieden
Harvard University

Elliot Hentov
State Street
Global Advisors

Roel Janssen
NRC Handelsblad

Yosuke Kawakami
formerly
Japanese Ministry
of Finance

Thomas Kielinger
Die Welt

Denis MacShane
Avisa Partners

Kishore Mahbubani
National
University of
Singapore

David Owen
House of Lords

Vicky Pryce
Centre for
Economics
& Business
Research

Brian Reading
independent
economist

Robert Skidelsky
House of Lords

Michael Stürmer
WELT-Gruppe

Christopher Tugendhat
House of Lords

John West
Asian Century
Institute

William White
OECD

Juliusz Jabiecki
Nardowy Bank
Polski