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FOREWORD BY THE EDITOR

LABOR, MONEY, CONSTITUTIONS AND INTERNATIONAL POLICY MAKING (AN INTRODUCTORY NOTE BY THE EDITOR)

Dear reader,

Just before we went into print, the international media outlets popularized the plan for an innovative monetary policy that was already in the making for about a year – the government of China and the central bank launched an emission of a digital currency.

Two Russian experts on classical liberalism and economic ideas, Petr Shchedrovitsky and Yurii Kuznetsov had translated for us (from Russian) their challenging interpretation of Adam Smith contribution of the division of labor. The authors lead PP readers into an excursion through the history of economic thinking: its basics start namely from the division of labor and lead to the monetary theory and international political economy.

This policy innovation, its treats and opportunities are discussed by our colleague from the University of National and World Economy (UNWE), Dimitar Chobanov. The theoretical discourse on the possible role of the electronic money and block chain technology in stabilizing to creation of money has been around for at least ten years. Unfortunately, however, it was not tested by more advanced economies than China or by smaller economies like Bulgaria. But there were ideas for emitting a Digital Euro¹ or a digital Bulgarian Lev.²

One of the pioneers in Europe in discussing the future of money, its substitutes as a foundation of human life is the article by Boyan Ivanchev, another UNWE colleague. His notion of Post-Money is both extraordinary reflective of the history and function of money and innovative as was of thinking of money.

The specific history of Greece's public finances and central banking is explained by dr. Iakovidis whose article links the emergence of the country as an independent state, its monetary and banking history with the recent (2009-2015) defaults of the Greek government on its foreign debt payments.

In an ideal state of affairs, whatever the ongoing stress tests on political and economic life, public policies should be based on solid constitutional arrangements. In 2020, in Bulgaria and other Central European countries these foundations were challenged by the governing coalitions and

¹ See: ECB, Report on a digital euro, Frankfurt-am-Mein, October 2020: https://www.ecb.europa.eu/pub/pdf/other/Report_on_a_digital_euro~4d7268b458.en.pdf

² The theoretical background of a digital Lev has been discussed in academic circles including the originator of the idea, Warren Coats (who advised the Bulgarian National Bank on the introduction of Currency Board System back in 1997 and contributed to the monetary stability of many countries around the globe – see Wikipedia, Warren L. Coats), Prof. Todor Tanev, Prof. Steve Hanke, your editors and other economists and political scientists. A year ago Warren Coats published an outlined that helps understanding why and how the block-chain would have supported the monetary system of Bulgaria, see: Warren Coats, Why Bulgaria needs to deepen its currency board, Central Banking, 25 February 2020.

parties of those countries. We will discuss the rule of law challenges in the next issue of our journal. In this one we offer two well-written accounts of the Bulgaria constitutional tradition (by Anna-Maria Atanasova from the Constitutional Court) and of deficiencies of some current constitutional practicalities that may have long term impacts. The latter account is authored by our colleague and constitutional lawyer, associate professor Atanas Slavov.

In the contemporary world, not only economy but policies and public governance are international. How COVID-19 changed or, rather, is about to change international institutions – this is the theme of the last two contributions to this volume. Prof. Veselin Popovski, from Jinal University in India, make an attempt to see what's next in institutions and give an advice on what needs to be done. The article by your editor reconstructs the process through which fighting poverty has become an undisputed policy objective around the globe and gives an overview of the developments triggered by COVID-19.

As the tradition requires, this volume ends with a brief presentation of one of the most interesting, recently established academic networks in public policies discussion -- „Netzwerk für Ordnungsökonomik und Sozialphilosophie“, or NOUS.

NOUS borrowed its motto from Karl Popper: "A new problem is the actual starting point of new scientific advancement."

I am confident that 2020 and 2021 give and would give many opportunities for new start that will resolve at least some of the challenges we and our readers have been confronted with.

Wishing a pleasant and curious reading,

Krassen Stanchev, Responsible editor

LABOR, MONEY, CONSTITUTIONS AND INTERNATIONAL POLICY MAKING

ADAM SMITH'S IDEAS ON THE DIVISION OF LABOR*

Petr G. Shchedrovitsky³, Research Foundation “The Shchedrovitsky Institute for Development”,

Yury V. Kuznetsov⁴, Financial Research Institute of the Ministry of Finance of the Russian Federation

Abstract

Adam Smith's exposition of the topic of division of labor was not only unoriginal, but also not particularly profound or thoroughgoing. Presenting the matter in the way it is often done in modern works, namely as if “The Wealth of Nations” addressed basically everything that economic and social sciences could say about it, would be a big mistake. The actual significance of the first three chapters of this book for economic and social sciences rather lies in the fact that Smith outlined with “dotted lines”, so to say, a number of key aspects which served as stimuli for and sources of inspiration for several subsequent generations of researchers dealing with issues related to division of labor in one way or another. As such, “The Wealth of Nations”, indeed, played an important role in the history of thought, and continues to play it to this day.

Key words: *division of labor; Adam Smith; economic theory.*

1. INTRODUCTION

In recent years — especially since the global financial and economic crisis began in 2007–2008, largely unresolved to this day — the need to revise methodological approaches and to update theoretical tools has been actively discussed among economists. Some authors have expressed the belief that a paradigm shift in economics is coming⁵. The question of what direction that shift will take is to be central in present-day theoretical and methodological discussions.

Theory of production (along with theories of exchange, distribution and consumption) must constitute one of the key elements of any economic theory. However, the neoclassical paradigm currently dominant in economics takes rather peculiar position in this respect. On the one hand, within macroeconomics, theory of production boils down to creating some real-valued

* First published in Russian: Shchedrovitsky P.G., Kuznetsov Yu. V. “Adam Smith o razdelenii truda” [“Adam Smith's Ideas on the Division of Labor”], *Voprosy Filosofii [Problems of Philosophy]*, 2016, no. 5, pp.27-38.

³ Shchedrovitsky, Petr G. – president of the Research Foundation “The Shchedrovitsky Institute for Development”, head of the Department of Strategic Planning and Management Methodology of the National Research Nuclear University MEPhI, member of the Executive Board of the Centre for Strategic Research North-West Foundation
E-mail: peter195811@gmail.com

⁴ Kuznetsov, Yury V. – Cand. Sci. (Econ.), leading researcher of the Financial Research Institute of the Ministry of Finance of the Russian Federation; deputy chief editor of the Journal “Economic Policy” (in Russian).
E-mail: yurii-kuz@mail.ru

⁵ See e.g.: Mau V., Ulyukaev A. “Global Crisis And Trends Of Economic Development,” *Voprosy Ekonomiki*, 2014, no.11 p.6. (in Russian.) <https://doi.org/10.32609/0042-8736-2014-11-4-24>.

mathematical function which makes possible the calculation of an aggregate quantity of goods and services produced in the society (e.g. GDP) based on statistically verifiable interdependencies with other macroeconomic indicators. On the other hand, within microeconomics, everything that has to do with production processes is considered to be raw data in general equilibrium models, not requiring any further theoretical and/or empirical explanation⁶. In both cases, the study of production *per se* is essentially phased out of economic theory and “outsourced” to other, social and engineering, disciplines. All this results in a bewildering methodological paradox, where theory “deals” with a certain subject (and everyone is expecting it to do this) while refusing to substantively study it.

Nevertheless, the need to develop a meaningful theory of production still exists, and applied economic and social sciences incessantly demand it. A substantial analysis of processes taking place in modern economy and, in particular, of the emergence and development of highly complex production systems cannot be limited to statistical relationships among macroeconomic indicators or formal models of markets.

With this mismatch between intellectual demand and supply, one can see increasing interest in classical economics as well as other groundwork of the period of economic theory preceding the so-called neoclassical synthesis. Indeed, until about the 1930s, economic theorists devoted considerable attention to various aspects of the theory of production. Development of ideas on division of labor was part of these efforts. Interest in classical economics and attention to the topic of division of labor inevitably lead us to the person of Adam Smith, who is commonly referred to as the founding father of modern economics (which is a vast overstatement, however). What can — and what cannot — today’s reading of Smith’s theoretical framework contribute to the understanding of the phenomenon of division of labor?

If typical individuals with a degree in social sciences or philosophy were to be asked with what “key words” they associate the name of Adam Smith (1723–1790), “division of labor” would likely be the second most frequent response, only behind the famous “invisible hand” metaphor (by which Smith tried to present figuratively his theory of social efficiency of voluntary exchange). Perhaps, such a response should not be surprising, as it is with the topic of division of labor that the author begins his magnum opus, *An Inquiry into the Nature and Causes of the Wealth of Nations*, generally referred to by its shortened title *The Wealth of Nations*. The first three chapters of this book have been countlessly mentioned and cited in academic literature on economic theory, management and other social disciplines, and thus it is virtually impossible not to form an associative link between Adam Smith and division of labor⁷. At times, it goes as far as claiming Adam Smith to be the author of the idea of division of labor—or, at the very least, the idea of specialization within a particular firm⁸.

Nevertheless, anyone remotely interested in the topic can easily discover that, being the founder of the classical school of political economy, Smith was not in fact the pioneer to introduce division of labor or even the first researcher of human society to take notice of it⁹. At the same time, it would be a mistake to disregard completely Smith’s discourse on division of labor and to claim it to be of purely historical interest, dismissing any mentions of it in modern literature as a simple conformity to tradition. One of the reasons for its importance was pointed by Joseph Schumpeter, who addressed the interpretation of division of labor by Adam Smith as follows: “Though, as we know, there is nothing original about it, one feature must be mentioned that has not received the attention it deserves: nobody, either before or after A. Smith, ever thought of putting such a burden

⁶ For further details see Shchedrovitsky P., Kuznetsov Y. “From Division of Labour to Division of Activity,” *Russian Journal of Philosophical Sciences*, 2014, no.6, pp. 49-64 (in Russian) (esp. section 3).

⁷ See e.g. Paul A. Samuelson, William D. Nordhaus, *Economics*. 19th ed. Boston etc.: McGraw-Hill-Irwin, 2009, p.30;

Michael H. Mescon, Michael Albert, Franklin Khedouri, *Management*, 2nd ed. New York: Harper & Row, 1985, p. 76.

⁸ Michael H. Mescon, Michael Albert, Franklin Khedouri, *ibid.*

⁹ Brief review of pre-Smithian literature on division of labor see in our article: Shchedrovitsky P., Kuznetsov Y., *op. cit.*; see also bibliography listed there.

upon division of labor. With A. Smith it is practically the only factor in economic progress.”¹⁰ In other words, the reasoning of the classic economist constituted one of the first modern models of economic growth further developed in much more recent theories.

Another reason to remember Smith’s work is that it contains in embryonic form many issues and problems connected with the concept “division of labor”. Some of these issues have been developed in various disciplines (not only economic theory) while some others have remained “frozen,” waiting for their researcher. It is important to emphasize that these ideas are not only a part of the history of economic thought. Development of economic theory eventually led to issues of division of labor being “expunged” from its domain (at least from the areas of interest of the economic mainstream)¹¹. These ideas had a huge impact on philosophy and theory of management. We will also be interested in their significance for the general theory of human action, which began to develop in the second half of the 19th century (regardless of which particular discipline the theory could be assigned to).

Our paper is written in the genre of detailed commentary on the first three chapters of *The Wealth of Nations*, where the issue of division of labor (DoL) is examined. We focus on statements and fragments that contain general remarks on DoL as well as the context of such statements. Our commentary will be critical in the sense that we will try to not only present the ideas of the author, but also to pinpoint obscurities, problems and ambiguities, resolution of which is a prerequisite for formulating a general theory of DoL and which have largely stimulated the intellectual search by subsequent authors up until now.

2. DIVISION OF LABOR IN SOCIETIES AND ORGANIZATIONS

The very first paragraph in the first chapter of *The Wealth of Nations*, titled “Of the Division of Labour,” immediately features a pivotal methodological statement by Smith, “The effects of the division of labour, in the general business of society, will be more easily understood by considering in what manner it operates in some particular manufactures.”¹² It becomes evident from the following text that the author means by “particular manufacture” a production unit that produces a single final consumer good which satisfies “small wants of but a small number of people” and which can fully fit into a single “workhouse,” whereas in large manufactures “every different branch of the work employs so great a number of workmen, that it is impossible to collect them all into the same workhouse.” This premise is required for DoL to be possible to grasp by a single “spectator”. In other words, it appears to Smith that division of labor would not be a phenomenon as observable and obvious if the spectator were unable to simultaneously see the work of several people performing different parts of the work *along with the transition of intermediate products from one operation to another*.

Such a justification for the choice of the object observed is rather puzzling if one considers the subsequent “macroeconomic” conclusions made by Smith from the existence of DoL (they will be discussed in more detail in Section 5 below). The existence of DoL in society as well as a number of its causes have already been spoken of by many authors since ancient times. Similarly, it has long been acknowledged that the potential of division of labor depends upon market size (the topic of the third chapter of *The Wealth of Nations*): in particular, Xenophon wrote about it in *Cyropedia*; Plato was already aware that specialization of labor improves workers’ productivity. All of this was intuitively clear: in order to establish that a cobbler should stick to his last, there was no need to place him together with other workers in the same “workhouse”.

Some more reflection reveals another peculiarity of the phrase cited above: on what grounds does Smith argue that observing a “particular manufacture” (a “production unit of society,” so to

¹⁰ Joseph A. Schumpeter, *History of Economic Analysis*, Taylor & Francis e-Library, 2006, p. 182.

¹¹ See Shchedrovitsky P., Kuznetsov Y., op. cit.

¹² Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. New York: Random House, 1937, pp.3-4.

speak) may deliver knowledge that could be applied to society as a whole? To be sure, this kind of reasoning had often been used in the works of previous authors: for instance, in political philosophy, since the days of Aristotle there had been reflections on society as a whole or on a polity using an analogy with the family. However, being a thinker of the Scottish Enlightenment, Adam Smith was well aware that conclusions made in regards to isolated phenomena cannot be directly translated to society as a whole. As a matter of fact, his theory supporting social efficiency (from the point of view of the common good) of voluntary exchange among people driven by selfish interests serves as a striking example of discourse showing that a direct transition from the individual level to a more general (e.g. societal) one by means of an analogy is invalid. It would have been reasonable to expect the thinker to tackle the case of DoL in the same manner. However, he did not.

These methodological oddities can be easily overlooked, as the author immediately proceeds to the most vivid theme of the three chapters, namely a description of a pin factory¹³—an example so illustrative and impressive that it has been moving on from textbook to textbook ever since. We will linger on them, however, and ask ourselves: if the choice of such an object of description as a basic “element” of the theory of DoL is at least questionable, then what is the point of it? Today it would be hardly possible to explain exactly why Smith chose this kind of object in order to support his theory of DoL instead of opting for DoL across firms or regions (as William Petty did in *Political Arithmetick*). But we can hypothesize that, intuitively, he sensed the importance of the aspect of such production structures connected with the entrepreneurial and managerial task of dividing the production process into operations (works), creating normative descriptions of them (setting of standards), and establishing a logistics system—that is, organizing the transition of intermediate products of these works between stages of the production process. Nowhere in *The Wealth of Nations* does Smith expound upon this point, and the lack of this reasoning, perhaps, speaks for the historical role of his work no less than the ideas present in it do. Division of labor in manufacture (or division of work) as a special economic phenomenon distinct from division of labor in society as a whole was studied by a much later generations of authors, such as Charles Babbage and Andrew Ure, who specialized in management theory and practice rather than economic theory. Regarding the creation of logistics systems as a separate objective, it is largely the “assembly line revolution” era when it was clearly articulated and analyzed and when respective solutions began to be developed.

The main general conclusion drawn by Smith from examining the pin factory example is as follows, “The division of labour, however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour. The separation of different trades and employments from one another seems to have taken place in consequence of this advantage.”¹⁴ The following remarks can be made about this excerpt.

Firstly, an increase in productivity can result not only from distribution of separate operations, or tasks, and a corresponding specialization of individual workers. For instance, as further discourse shows, Smith is well aware of productivity growth stemming from the invention and implementation of machines. Even though he notes that DoL can contribute to mechanization, it is clear that it is not the only reason for this process. Another method of improving productivity implies favorable production location, and Smith is knowledgeable on this as well. If productivity growth is the main result of DoL, why does Smith not examine other possible sources of that increase within a single “list”?

Secondly, as has already been noted above, it has long been known that causes and factors contributing to DoL include differences in individual abilities, geographical location and people’s needs — once again, as further reasoning indicates, Smith is perfectly aware of this. Why does he

¹³ Smith, op. cit., pp.4-5.

¹⁴ Smith, op. cit., p.5.

highlight productivity growth resulting from specialization within a manufacture as the main, if not the only, reason for separation of trades and occupations from each other?

One of the possible explanations may lie in the fact that Smith was influenced by his Scottish Puritan background. A similar hypothesis was proposed by an American economist Murray Rothbard, with regard to the origin of Smith's theory of value. According to Rothbard, the importance of labor as opposed to consumption constantly highlighted by Puritans may have influenced Adam Smith in his formulation of the labor theory of value, which was later used in Marxist socialism to base all its conceptual constructs upon¹⁵. However, this explanation is but a hypothesis for now, and the question of how and whether Puritan beliefs had an effect on Smith's economic doctrine is yet to be studied separately.

3. ADVANTAGES OF DIVISION OF LABOR: MAN A MACHINE

In the following, theoretically important passage, Smith distinguishes three different "circumstances" under which DoL within a particular manufacture can lead to productivity growth¹⁶. It would be more accurate to call these "circumstances" utilitarian prerequisites to DoL — that is, features of the outside world which make it potentially beneficial. We are going to address them one by one.

1. "The improvement of the dexterity of the workman necessarily increases the quantity of the work he can perform; and the division of labour, by reducing every man's business to some one simple operation, and by making this operation the sole employment of his life, necessarily increases very much dexterity of the workman."¹⁷

In essence, this reasoning implies that a worker's body, akin to a factory "machine" ("neuromechanical" in nature, as we would put it), has a certain characteristic, or a group of characteristics, which reflects potential to learn certain physical skills. This can be envisioned as some kind of non-linear relation — economy of scale, or indivisibility: the human machine (unlike cotton, grain or nails, for instance) cannot be divided into parts to be assigned to different production lines; it has to be used in its entirety for a single process in order to achieve maximum effect. We would like to emphasize that psychophysiological characteristics of a human being as a kind of tool or machine are in question: in a similar manner, specialized equipment is often much more productive than universal machinery.

2. "The advantage which is gained by saving the time commonly lost in passing from one sort of work to another is much greater than we should at first view be apt to imagine it. It is impossible to pass very quickly from one kind of work to another that is carried on in a different place and with quite different tools."¹⁸

Strictly speaking, this fragment refers to three very different factors. The first one represents savings on movement of a given worker in space, between different places within a production site. In this sense, it is similar to such productivity enhancing factors as geographic concentration and clustering of interrelated manufactures, except, unlike the latter, it only manifests itself at the local level. The second factor, not connected to the first one logically, is saving time which would be spent switching between operations (pauses); it is similar to the first one, but concerns the temporal dimension of a production process rather than the spatial one. Finally, the third factor involves the psychophysiological ability of the human machine to switch between operations within one working day, "A man commonly saunters a little in turning his hand from one sort of employment to

¹⁵ Murray N. Rothbard, *Economic Thought before Adam Smith. (An Austrian Perspective on the History of Economic Thought. Volume 1.)*. Cheltenham, UK; Northampton, MA, USA: Edward Elgar, 1995, pp. 142-143, also chapters 4, 12 and 14.

¹⁶ Smith, op. cit., p.7.

¹⁷ Ibid.

¹⁸ Smith, op. cit., p.8.

another. When he first begins the new work he is seldom very keen and hearty; his mind, as they say, does not go to it, and for some time he rather trifles than applies to good purpose.”

In other words, the above also refers to the potential of a more efficient use of a worker as a “tool” or “machine” integrated into the production process within a firm.

3 “Every body must be sensible how much labour is facilitated and abridged by the application of proper machinery. [...] Men are much more likely to discover easier and readier methods of attaining any object when the whole attention of their minds is directed towards that single object than when it is dissipated among a great variety of things. [...] A great part of the machines made use of in those manufactures in which labour is most subdivided, were originally the inventions of common workmen, who, being each of them employed in some very simple operation, naturally turned their thoughts towards finding out easier and readier methods of performing it.”¹⁹ Once again, the above addresses a certain effect of applying “mental faculties” (neurophysiological processes, as we would say today) connected with the speed of developing skills as well as attention span.

As such, all three statements by Smith largely boil down to a set of interrelated psychophysical properties of the human body reflecting its abilities to learn, concentrate and shift attention (short-term learning). Two more factors are mentioned in addition, namely the spatial separation of different types of operations and inevitable pauses generated by switching from one type of activity to another.

In our opinion, the most interesting detail is that in the fragment of the first chapter, dedicated to the “three circumstances” of DoL, Smith essentially regards a human worker as a kind of tool or “machine” that is incorporated into the production process and is to be used most efficiently, or economically. The very same reasoning can be used to describe the benefits of specialized machines compared with more universal machines (a human is, without doubt, among the most universal “machines” available). *No gains of trade between the owner or the manager and their employees are in question here.* In this respect, the passage represents a striking contrast with what follows in the next two chapters, where DoL is basically regarded as one of the aspects of exchange (we will get back to this matter below).

Here, DoL is essentially interpreted as the result of a holistic process of consumer good production being divided into separate standard operations carried out by separate standardized “machines” (humans included). The benefit of division is articulated, and yet the process of its coming into existence is not analyzed at all.

This part of Smith’s review of DoL implicitly contains another aspect which is of interest as far as further development of the idea of division of labor goes, namely the relationship between “the natural” and “the artificial” in the system of DoL. It is interesting to note that Smith says here nothing on the topic of natural differences in human abilities, which had typically promptly been addressed by earlier authors in the context of DoL. The use of the “human machine” as an element of the production process, performance of which goes up as skills in performing standardized operations are built, implies a kind of “artificial reconstruction” of the human being. The more the individual specializes in their field and the more standardized their actions become, the less important the role of his “natural” features becomes, and the same could be said of “natural” differences between people. Individuals having mastered the same skills turn out to be interchangeable to a large extent, whereas the “natural human” is unique. At the same time, Smith admits that DoL may emerge from “natural” differences between people (or places), the matter is discussed in the later chapters.

It is clear that the potential of the “human machine” theme as well as human standardization was used in the teachings of many thinkers after Smith, including Karl Marx in his theory of alienation. What is more interesting, however, is that Smith’s description and its contradictions

¹⁹ Smith, op. cit., p.9.

already implicitly contain the “standardization vs the use of natural differences” dilemma as well as the issue of the logic of the choice between the two.

4. ADVANTAGES OF DIVISION OF LABOR: IS IT A SUFFICIENT RATIONALE?

Even before Smith, utilitarian prerequisites for DoL had been put into the spotlight of discourse on this topic, which one can find in the works of both ancient authors and European authors of the 17th–18th centuries. Unfortunately, discussions of it in modern academic publications and standard economic theory textbooks have been largely limited to references to possible benefits.

The problem with this approach is that the presence of utilitarian prerequisites cannot serve as a comprehensive explanation of why DoL is implemented and developed by humans, nor can it serve as a description of the corresponding social processes. The truth is that *the presence of a potential source of benefits does not necessarily mean that these benefits are realized*. For this potential to be used, people need to have at least the opportunity to interact for mutual gain, which implies a guarantee that others would not attempt to appropriate by force all the benefits of DoL for themselves²⁰. And, above all, the participants of the future DoL have to execute a series of appropriate mental operations to transform the potential capabilities of the DoL system into a concrete plan of activities (organizational development project) which can be implemented (i.e. they have to perform entrepreneurial and management functions).

Of course, in *The Wealth of Nations*, Smith addresses some of the “non-utilitarian” prerequisites of DoL, for example, in referring to the central role of private property in the development of mutually beneficial exchange, which contributes to general welfare. However, he does not directly associate this matter with the topic of DoL, basically interpreting the latter as an inevitable “natural” occurrence arising partly from utility and partly from a certain “propensity in human nature.”

5. DIVISION OF LABOR AND EXCHANGE

The second chapter of *The Wealth of Nations* is called “Of the Principle which gives occasion to the Division of Labour.” Apart from benefits resulting from DoL and constituting its “circumstances,” there is a certain fundamental “principle” causing it. What is it?

Smith writes, “This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another. Whether this propensity be one of those original principles in human nature of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to inquire.”²¹ The causal relation, according to Smith, is, therefore, as follows: the ability to use reason and speech in humans creates a natural inclination to trade and exchange, whereas the latter gives rise to DoL in some automatic manner.

Adam Smith’s reasoning makes a logical leap here. In the previous chapter, the discussion was centered mainly around benefits of division of labor within a separate manufacture. As we have attempted to demonstrate above, those benefits are not logically connected with the fact that the worker enters into an exchange relationship with the employer, but were instead mainly explained by the specific “configuration” of the worker as an element of production process as well as the

²⁰ For more information on these “non-utilitarian” prerequisites, see: Hülsmann J.G. “Discursive Rationality and the Division of Labour: How Cooperation Emerges.” *American Journal of Economics and Sociology*, vol. 58, no. 4 (Oct., 1999), pp. 713-727.

²¹ Smith, op. cit., p.13.

spatial and temporal structure of this process, rather than the worker's role of a conscious participant in an exchange, even if driven by a certain natural propensity.

Later the text features a famous passage on the role of mutually beneficial exchange in meeting needs of people, "But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."²² Smith then gives the phenomenon of DoL a new explanation, articulating it as follows, "As it is by treaty, by barter, and by purchase that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour".²³ Later he illustrates his thesis by discussing how DoL could have emerged in tribal society, and the resulting description is quite similar to, for instance, the respective passage by Plato.

It is important to note that a rather similar phrase (cited above, in Section 2) can be found in the previous chapter; however, it refers to another reason: the separation of various occupations and tasks from each other is instead caused by the advantage in labor productivity that DoL offers. This prompts an obvious question: what cause have actually "created" DoL—propensity (or ability) to enter mutual exchange *or* gains in labor productivity due to separation of tasks in the production process? Smith does not provide an answer to this question—moreover, he does not even formulate it. He simply names two fundamental phenomena without dwelling on the relation between them.

Looking at this from today's perspective, we can state that the two chapters alternate between two different, although interrelated, phenomena, which have different, although interacting, causes. First, what we can call *internal, or manufacturing, division of labor* is considered — a complex systemic phenomenon in the sphere of production, which implies separate participants of a process performing numerous heterogeneous functions (cognitive ones included). One of the features of this phenomenon is "organized order". Second, the focus is on *societal division of labor*, closely connected with exchange and producing *spontaneous order* (in Hayekian terms), which is, to quote another prominent Scotsman of the time, "the result of human action, but not the execution of any human design."²⁴

Exhibiting intuitive insight, Smith assigned these two phenomena to different chapters, but he did not analyze the differences between them. Instead, he brought them under the same "heading" of DoL, leaving the task of distinction between the two concepts to future researchers.

6. DIVISION OF LABOR AND EXTENT OF THE MARKET

The third chapter dedicated to DoL is titled "That the Division of Labour is limited by the Extent of the Market." Its theoretical content is actually almost fully expressed in the heading and, in more detail, in its first paragraph, "As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market. When the market is very small, no person can have

²² Smith, op. cit., p.14.

²³ Smith, op. cit., p.15.

²⁴ On the difference between manufacturing and societal DoL see Shchedrovitsky P., Kuznetsov Y., op. cit.; see also Groenewegen P. "Division of Labour," *The New Palgrave Dictionary of Economics. Second Edition*. – London: Palgrave Macmillan, 2008 (*The New Palgrave Dictionary of Economics Online*. Palgrave Macmillan. 27 April 2013. – URL: http://82.179.249.32:2288/article?id=pde2008_D000176> doi:10.1057/9780230226203.0401)

any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for."²⁵ The rest of the chapter mostly illustrates this point, providing various specific examples.

This idea is, once again, not new: it was expressed by Xenophon in ancient times and by authors of numerous treatises and pamphlets on trade and industry in the 17th–18th centuries.

However, it should be noted that the same logic can apply to any growth in labor productivity resulting from either DoL or other factors, such as new technical developments, discoveries of new natural resource sites, or an increase in capital availability. Regardless of what generates the opportunity to improve productivity, it cannot be realized if market size makes it impossible to sell additional goods. Indeed, DoL is one of the possible instances, but not the only one. Nevertheless, the popularity of Smith's work helped this link between DoL and extent of the market to become a commonplace.

No less interesting, however, is that in this case, as in all the previous ones, Smith "touched" an important topic without developing it. The special interrelationship of DoL with market size exists indeed and consists in the fact that the process of deepening DoL can in itself lead to market size expansion²⁶. Scholars returned to the study of this phenomenon more thoroughly as late as in the 20th century, and the construction of its theory is still far from being complete. Allyn Young's article "Increasing Returns and Economic Progress" published in 1928 served as the key work in this respect. Commenting on Smith's book, Young wrote, "It is generally agreed that Adam Smith, when he suggested that the division of labour leads to inventions because workmen engaged in specialised routine operations come to see better ways of accomplishing the same results, missed the main point. The important thing, of course, is that with the division of labour a group of complex processes is transformed into a succession of simpler processes, some of which, at least, lend themselves to the use of machinery. In the use of machinery and the adoption of indirect processes there is a further division of labour, the economies of which are again limited by the extent of the market. It would be wasteful to make a hammer to drive a single nail; it would be better to use whatever awkward implement lies conveniently at hand. It would be wasteful to furnish a factory with an elaborate equipment of specially constructed jigs, gauges, lathes, drills, presses and conveyors to build a hundred automobiles; it would be better to rely mostly upon tools and machines of standard types, so as to make a relatively larger use of directly-applied and a relatively smaller use of indirectly-applied labour. Mr. Ford's methods would be absurdly uneconomical if his output were very small, and would be unprofitable even if his output were what many other manufacturers of automobiles would call large."²⁷ This way, Young completes the arguments made by Smith: utilitarian prerequisites for DoL turn out to be involved in complex dynamic relationships and cause-effect interrelations with market size. However, it took 150 years for this logical step to be made.

7. CONCLUSION

Based on all of the above, the following conclusions can be made. Adam Smith's exposition of the topic of DoL was not only unoriginal, but also not particularly profound or thoroughgoing. Presenting the matter in the way it is often done in modern works, namely as if *The Wealth of Nations* addressed basically everything that economic and social sciences could say about it, would be a big mistake.

²⁵ Smith, op. cit., p.17.

²⁶ See Allyn A. Young, "Increasing Returns and Economic Progress," *The Economic Journal*, vol. 38, no. 152 (Dec., 1928), pp. 527-542; also Nicolas Kaldor, "The Irrelevance of Equilibrium Economics," *Economic Journal*, 1972, vol. 82, no. 328, p. 1237 – 1255.

²⁷ Allyn A. Young, op. cit., p.530.

The actual significance of the first three chapters of this book for economic and social sciences rather lies in the fact that Smith outlined with “dotted lines”, so to say, a number of key aspects which served as stimuli for and sources of inspiration for several subsequent generations of researchers dealing with issues related to DoL in one way or another. As such, *The Wealth of Nations*, indeed, played an important role in the history of thought, and continues to play it to this day.

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CENTRAL BANK DIGITAL CURRENCY: WHAT IS THIS AND WHY IS IT IMPORTANT?

Dimitar Chobanov¹, University of National and World Economy

Abstract

This paper explores the topic of central bank digital currency, which refers to cryptocurrency issued by the central bank. It could provide more efficiency, bigger share in payments market and respond to the tendency of using fewer physical cash. The key impacts and risks are identified as well as preconditions for successful implementation of CBDC. Overall, CBDC attracts interest among many central banks and researchers but also it could be more significant for retail users.

Key words: Central bank digital currency, monetary policy, financial intermediation, payments, negative interest rates.

INTRODUCTION

This paper aims to explore the topic of central bank digital currencies (CBDC) and the impacts they could have on the monetary and financial stability policies and the payment system.

Many central banks including that of China are considering issue of CBDC and they even started testing their Digital Currency Electronic Payment, which is actually a “Digital Renminbi”.

Uruguay, Saudi Arabia, the United Arab Emirates, Russia and Turkey have also initiated projects for testing their national versions of CBDC. Almost every week there are statements or research papers by central banks all over the globe on this topic. It is considered as a tool to improve the payment system and to catch up to the technologically advanced private fintech companies that take away market share from the central bank and the commercial banks.

WHAT IS CBDC?

Central bank digital currency is a digital representation of a sovereign currency issued by and as a liability of a jurisdiction’s central bank or other monetary authority as it is defined by (Kiff et. al., 2020) will be used. As the topic is not well explored the classification of digital money is still evolving and there is no universal CBDC definition. There are four types of digital currency: CBDC, synthetic CBDC (sCBDC), stablecoins, and crypto-assets, based on whether:

- it is issued by a central bank;
- it is a legal tender;
- central bank backed;
- pegged to a fiat currency;
- allows peer-to-peer transfers;
- can be programmed.

For example, sCBDC is backed by but not issued by a central bank, but it can be legal tender. There are other digital forms of money backed by fiat currency but not issued by the central bank and are

¹ Dimitar Chobanov is researcher at Institute of Economics and Politics, University of National and World Economy; Email: chobanov@gmail.com

not considered as CBDC. These could include various forms of “b-money” such as credit and debit cards and “e-money” like stored-value cards.

Stablecoins are crypto-assets pegged to fiat currency. They are privately issued tokens that are digital representations of value that are not denominated in fiat currency, that depend primarily on cryptography and distributed ledger technology as part of their perceived or inherent value. Typical example are the asset backed stablecoins.

Legal tender is a money that is legally recognized as satisfactory mediums of exchange to pay for goods and services and repay financial obligations. Also, all digital currencies can be programmed. It is achieved via smart contracts that encode the terms of traditional contracts into computer programs and executed them automatically.

Many central banks are considering issuing retail CBDC. Central banks of Bahamas, Ecuador, Ukraine, and Uruguay have already conducted issuance of CBDC and many others including some of the largest are making such plans.

Some countries are exploring crypto-assets but not CBDC used as a medium of exchange. These are not digital representations of countries’ central bank issued fiat currency but are issued by the finance ministries. Apart from this Venezuela had launched Petro which was a commodity backed asset but this trial failed.

CHARACTERISTICS OF CBDC

One of central banks’ functions is to operate the payment system. Using CBDC is a way to reduce the market dominance of private payment systems or to reduce the concentration risk. Such systems tend to become natural monopolies as a result of network externalities, economies of scope and scale (Bolt and Humphrey, 2005) and (Gowrisankaran and Stavins, 2004).

CBDC’s are a tool for development of financial system in countries with remote or rural areas or with underdeveloped infrastructure of distributing cash.

Digitization of financial services and issuing CBDC could reduce costs associated with issuing and managing cash. Different estimates of private costs using cash range between 0.2 and 0.6 percent of GDP in developed countries and between 1 and 2.5 percent of GDP in developing and emerging market countries. They are distributed among banks, firms and households.

Maintaining CBDC requires substantial fixed costs while marginal operational costs would be low including the customer service. However, in terms of cost efficiency it would be more suitable for larger jurisdictions which are able to bear fixed costs. Managing digital currency could be as complex as managing cash. This is the reason why it should be assumed that digitalization would lead to cost reduction. Some of fixed costs for the central bank and commercial banks associated to cash will remain.

Additional operational costs associated with CBDC are for software development, user experience testing, wallet maintaining, servers, licences, service fees, threat modelling, protection, identification, response management, help desk, training, communication etc.

CBDC is expected to improve monetary policy effectiveness. CBDC are interest bearing including negative interest rates but it requires either prohibition of cash² or increasing the costs of holding cash³, or if cash could be depreciated against CBDC, which could become the sole legal tender⁴. Deeply negative interest rates are not likely to be accepted by the public which could substantially undermine the confidence in the central bank. Such negative interest rates would be equivalent to levying tax on users of CBDC without legal foundation. This means that the central bank not the Parliament could impose additional taxation which is intolerable and undemocratic.

² See Rogoff, 2014.

³ See Bordo and Levin, 2018.

⁴ See Agarwal and Kimball, 2015.

On the other hand, CBDC could be used for making differentiated transfers based on user account balances⁵ or other type monetary stimuli. They could supplement fiscal policy measures and make them more effective as well.

CBDC could also be used as a tool to accelerate the velocity of money by influencing the consumer behaviour. CBDC holdings could incur a fee to incentivize public to spend it quickly. The central bank would also credit households' CBDC accounts but distributional issues arise by this policy. It raises questions about the differentiation between monetary and fiscal policies and whether the central bank overtakes fiscal policy out of the government. Innovative monetary policy could discourage innovation in existing payment systems (BoE, 2020), lead to disproportionate concentration of power in the central bank (Mersch, 2020).

Improved effectiveness of monetary policy could be a result of better direction and timing. It is aided by the ability to observe the economy's response to shocks more accurately. Microlevel data of payment flows could help policymakers to implement monetary policy more accurately accounting for seasonality or natural disasters. Another advantage is that forecasting the demand for CBDC would be applicable by regions and sectors. Thus, the central bank would be able to make better macroeconomic projections, anticipate changes in demand for liquidity and reserves, or the velocity of money. Apart from this the central bank should be vigilant about data protection otherwise risking reputational issues far exceeding benefits of CBDC.

CBDC would help central banks' maintain market share in payments. Cryptocurrencies' based payment systems like bitcoin and possible newer projects could gain a substantial share of payments markets and especially in developing economies and emerging markets. It is possible to have a currency substitution. Migration to cryptocurrencies could reduce commercial bank deposits shrinking their sources of stable funding and limiting their ability to provide loans to the economy. Thus, financial intermediation would also tend to decrease. Globally spread digital currencies are difficult for supervision and regulation by a single national institution and especially in developing or emerging market economies. A well-designed CBDC might maintain the role of the public money as a unit of account.

CBDC could be used as a tool for using local currency as means of payment in countries/areas with high share of currency substitution. It could be part of policy mix along with sound monetary, fiscal, and financial policies for macroeconomic stabilization.

CBDC could facilitate government interventions through direct payments to households. For example, according to the draft stimulus package the "digital dollar" would be created to make possible stimulus payments to US citizens without bank accounts. Thus, the US Treasury would be able to make payments by direct deposits to recipient bank accounts for which otherwise checks would be used. Digital dollars would be remunerated at an interest rate that is the greater of the interest rate on required reserves and that on excess reserves. This idea was not approved in the final version but eventually it could be legalized in near-future bill. Ultimately, CBDC enables governments to transfer funds directly to households in many ways⁶.

Problems often referred as to the private issuers could be also applicable to central banks. There could be cases of not internalizing social costs of operational failure like cyberattacks. Monopolistic issuers can abuse that power and supply partial, inadequate and expensive services. Collected user data could be used as a source of additional revenues.

CBDC could not address the issues related to the currency substitution particularly where residents have lost their confidence in local monetary and fiscal authorities due to high rate of inflation, currency devaluation or other financial distresses.

⁵ See Davoodalhosseini et al., 2020.

⁶ See Rutkowski et al., 2020.

RISKS ASSOCIATED TO CBDC

CBDC could affect the monetary policy. It could change the demand for and the composition of base money in unpredictable way. It can also change the sensitivity of quantity demanded for money to changes in interest rates⁷. Other studies state that there could be such impact but it is not likely to be significant (Mancini-Griffoli et. al. 2018). If CBDC increases financial inclusion it could expose more persons and businesses to interest sensitive assets thus making monetary policy more effective. The exchange rate transmission channel could facilitate more active currency management which could affect its rate more for a given exchange rate change.⁸ The bank lending channel could also be strengthened because the interest rate would be more directly transmitted to the banking system.

CBDC could compete with bank deposits depending on its design and on interest rates paid on CBDC. If CBDC is interest bearing, then central bank in fact would interfere on the current accounts market, while non-interest bearing CBDC would be virtually cash. Banks with retail deposits will be competitors to the central bank and eventually should increase deposit rates. Higher funding costs would create pressure to increase lending rates as well. Thus, the quantity demanded for loans would decrease affecting market share and profits. Bank funding would also become more volatile as retail deposits in general are more stable source of funding.

Deposit insurance allows banks to have cheaper funding compared to other sources. CBDC could reduce market discipline as banks would take higher risk to offset deposit funding. Banks could rely on wholesale funding which could have implications on funding costs, stability, and market discipline. Because of the liquidity requirements they may have to reduce lending or corporate bond holdings. Such option would not be appropriate for economies with less developed capital markets. Hence, banks would need to hold more liquid assets to meet regulatory requirements or reduce lending at the expense of profits, less financial inclusion, and lower investment rates.

CBDC could have impact on central bank's balance sheet. If disintermediation happens the central bank could try to lend to banks to offset for diverted deposits. This is not entirely consistent to the central bank mandates and could harm the independence principle by opening door for political interference.

Risks could be effectively managed if it would replace the existing physical cash. The change would be only on the right side of the central bank T-account from cash to CBDC. The impact could be different if CBDC is issued against bank reserves when users convert from commercial bank deposits. When CBDC are paid for with reserves the central bank liabilities would be unchanged while those of commercial banks would shrink.

Different suggestions have been made to alleviate this consequence for commercial banks. Some of them are imposing holding limits for CBDC, limiting the commercial banks ability to provide on-demand convertibility of deposits into CBDC and some suggest that no policy actions are necessary. Ultimately, it depends on CBDC's design of whether it would trigger bank runs by providing safe and liquid alternative to deposits. Still, the increase of this risk will depend on whether bank deposits are insured and of the credibility such scheme. Cases of individual bank insolvency running from one bank would likely be to another without converting to CBDC. However, CBDC could increase the risk of generalized runs out of the commercial banks. In case of such run central bank using CBDC is enabled to offer liquidity faster to commercial banks to avoid the panic. CBDC is not likely to increase run risk in a currency or sovereign crisis because depositors would typically run from all local assets.

For countries with fixed exchange rate it is also important whether there is CBDC of the reserve currency. In such cases it is possible such CBDC to increase the extent of currency substitution. It is

⁷ See Carstens, 2019.

⁸ See Armelius et. al., 2018.

also likely financial integration between these countries to be facilitated by more direct transmission of the reserve currency monetary policy to the other country.

INTEREST AND FEES

There could be interest payments on CBDC, which would be a way to apply also a negative nominal interest rates that is not possible with physical cash. This option depends on constraints on cash because otherwise the users would choose the option with higher return. Interest payments could have a negative impact on anonymity due to tax compliance and emerging issues about the calculation of interest. It could be an issue for offline stored value devices which require specific solutions such as occasional connections to the network.

Such system would also require transaction fees to be applied in order to be effective. They could be fixed amounts, percentage or volume based and could vary depending on types of transactions or tiered by transaction volumes (Kiff et. al., 2020). Lower fees on transactions would create incentives for retailers and consumers to adopt and use CBDC. However, this would raise the question whether it is appropriate to use tax revenues to finance central bank competition with private banks. On the other hand, transaction fees could be a tool for mitigation the operational risks for the CBDC payment system.

There are no immediate needs for interest accrual or transaction fees on CBDC. Such options would make it more flexible but would create greater differences to physical cash. Thus, a new item in central bank liabilities would be created with negative implications on commercial bank balance sheets and their profits.

CBDC impact would be assessed relative to central bank policies. If CBDC substituted for physical cash the expenses for printing and minting currency, maintaining it, building vaults and storage depots, and for distribution would be significantly reduced. There would be also costs related to CBDC services that should be covered through fees. Such expenses are generated by the interbank funds transfer systems that should not be subsidized in order not to create incentives for market distortions and misallocation of resources.

ALTERNATIVES TO CBDC

Some of the main purposes of issuing CBDC are to help implementing monetary policy by avoiding zero lower bound on cash. The other one is related to operation of payment system. Some central banks are working on improving existing payment systems to match the speed and convenience of digital currencies. The Federal Reserve System of the United States is developing so-called fast payments which is focused on low-cost and nearly instantaneous settlement of inter-bank retail payments. As the FED still do not apply negative policy rates CBDC is not a top priority for the bank.

In other countries, increased competition by fintech companies and other reforms led to improved payment services for retail users without issuing CBDC. If the objective is to react to reduced cash usage other options would be mobile and electronic money or incentives for private institutions to offer suitable products.

PRECONDITIONS

CBDC would require infrastructure upgrade costs for electricity grids, mobile networks and internet coverage, cyber security that could be significant. This process might accelerate country's infrastructure investment in fibre optic cables, landlines and satellite connections and the digitalization of the financial system. Robust data privacy protection legislation and regulations and central bank resilience are necessary. CBDC might require changes in governing, accounting, and financial reporting standards.

Human resources are equally important as physical infrastructure for CBDC implementation. Personnel should be trained in developing, operating and managing such arrangements and also education for users and service providers.

Issuing of new currency could lead to major changes in monetary policy transmission channels, financial stability, financial intermediation, and payment system. The central bank should consider the existing operating environment, the degree of public acceptance, use and consumer preferences. The impact on the central bank operations should be examined as well.

Similar to the issuance of physical cash the central bank and the government will have to show strong commitment to create credibility of the CBDC, so it is perceived at least as useful and valuable as the physical currency. Public confidence in economic and financial stability, in the parity between digital and physical cash and in the central bank is crucial. Trust-building policy should precede CBDC considerations.

If the central bank does not have the capacity to directly issue CBDC, sCBDC might be a good option.

CONCLUSIONS

Central bank digital currency could have many advantages to physical cash in terms of effectiveness, lower costs, convenience in monetary policy. At the same time, it could generate or increase many risks related to cyber security, lack of anonymity etc. It also might require significant investment in infrastructure, networks, security, education of personnel and users etc. Risks could be even higher depending on the design of CBDC. Two of the most important options to choose whether CBDC would be interest-bearing and what would be the transaction fees. As far as CBDC would be a substitute for cash impacts on the economy could be more easily manageable. The other option where CBDC would substitute for bank deposits on the account of reserves is ambiguous because of negative impacts on commercial banks market share, deposit and lending interest rates, and profitability. Still, there is no immediate need to switch to CBDC. There are also some viable alternatives like incentives for private companies, fast payments and sCBDC that could avoid some risks and costs associated to CBDC.

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POSTMONEY PHENOMENA: CRITICS OF DIMINISHING MARGINAL UTILITY AND VALUE FUNCTION

Boyan Ivantchev¹ University of National and World Economy, Sofia, Bulgaria

Abstract

Business relies on a common understanding of money as a means of exchange, a store of value and a mechanism for rewarding employees and investors alike. In a rapidly changing global economy, notions of money may evolve and force us to rethink its purpose in quite fundamental ways. In this paper I will look at the history of money, its role as a simple tool for payments, exchange, and a measure of value. I will then go on to examine the evolution of the concept of Postmoney² and Postmoney theory, challenging the validity of diminishing marginal utility of income and wealth and value function psychological perception of money.

Key words: Postmoney, Postmoney theory, Cryptocurrencies, Marginal utility, Value function.

THE STANDARD ECONOMIC PARADIGM AND THE COMPLEXITY OF MONEY

The standard economic paradigm defines money as a medium of exchange, unit of account and store of value (Samuelson and Nordhaus, 2001; Taylor and Weerapana, 2009). Equally its function is defined as having, 'universal acceptability for payment, exchange and measure of value' (Seaford, 2004: 18). Money also can be classified as per their properties: issuer - central bank or not; form - physical or digital; accessibility - wide or narrow; technology - peer-to-peer tokens, or accounts (Bech and Garratt, 2017; Boar, Holden and Wadsworth, 2020). It is somewhat really incomprehensible how the comprehensive role of money today is still expressed in academic literature only through its simple technical characteristics as a tool. The origin of money is a complex process that began with primitive and ancient forms of exchange (relevant to the early and primitive societies and their intuitive organization of commodity barter) around 3,000 years B.C. At the very beginning different commodities have been used as a forms of money and media of exchange – cowry shells, cotton, salt, furs, sugar, cocoa beans, tobacco or the strange forms like the stone money from the island of Micronesia which are up to 4 meters in diameter. So, the early forms of commodity money are perceivable as a media of exchange containing intrinsic value having an option to use that intrinsic value of the commodity for consumption or production i.e. commodity money possess usage outside of its use as a just money. The process of money evolvment was progressing very slowly for to reach the coinage of metal in the eastern Mediterranean region, the Middle East, India and China around approximately 600-400 B.C. Intrinsically useless coins but tight to fixed amounts of the commodity appeared in the 15th followed by convertible on demand notes from the 17th century, in Sweden and later in England (Spufford, 1988). The history of money suggests that its meaning, role, and importance is also evolving - not only in its physical form, value and methods of payment, as per the standard economics - but also in terms of the **inner nature** and **soul** of what we consider to be money. The origin of money was defined by Glyn Davies in the following way: 'Money originated very largely from non-economic

¹ Boayan Ivantchev, PhD is an Associate Professor at the University of National and World Economy, teaching investment finance and he himself has a background of a trader and analyst of financial markets, ivantchev@omega.bg.

² Ivantchev B. coined the notion of Postmoney for first time in the academic literature in scientific study "Парите като Табу и Postmoney", 2011. [Ivantchev B., (2011). Parite kato Tabu i Postmoney, Pari i Kultura – 2/2011, VUZF, str. 56-74]

causes: from tribute as well as from trade, from blood-money and bride-money as well as from barter, from ceremonial and religious rites as well as from commerce, from ostentatious ornamentation as well as from acting as the common drudge between economic men' (Davies, 2002: xvi). This definition shows that money has origin, value and functions related to anthropology, history, culture studies, morality and ethics, customs and laws, occultism and religion, wars, social and economic development. It is also closely tied to the psyche and the psychology of individuals and nations and is culturologically positioned in time. Why then does the standard economic paradigm continue to perceive money only as a means?

THE DEMATERIALIZATION OF MONEY AND MATERIALIZATION OF CRYPTOCURRENCIES

Money has had many complex uses over time: as compensation for people killed; to purchase slaves and sexual services; as a dowry and compensation for the lost labor force in the family of the bride; for the sale of a son or daughter as farmhand laborers and soldiers; for magic spells and sacrificial offerings; to finance bribes and the remission of sins; and to purchase social status and public rank. Today it is also used for drug distribution, to finance of weapons of mass destruction, terrorism, and attempts to upgrade the human body and achieve immortality. These actions can hardly be valued in terms of money and its functions as a means only. Historically money appeared in order to support the exchange of goods and the development of trade, but gradually it started living its own life, away from trading and its functions ceased to be perceived solely as facilitating trade. It has become dematerialized. It is of crucial importance to understand the money notion and existence not as narrow as stated by the standard economic paradigm. It is obvious, that standard economics approach is not taking into the account "the soul of money" and its complexity as socioeconomic and psychological phenomena. So, to clarify – money phenomena is so complex, that even the way money is produced through the years can reshape and transform not only the monetary systems but also the basis and paradigm to experience the money. "The rules of money production determine to a large extent the transformation of monetary systems through time. All of this is important from a moral and spiritual point of view. Yet it simply vanishes from our intellectual radar screen if we look on money and banking only through macroeconomic spectacles" (Hulsmann, 2008: 3). Psychological experiencing of the money concept – as conscious mental process - might be also perceived on the unconscious level as a priming effect "Our research activates the concept of money through the use of mental priming techniques, which heighten the accessibility of the idea of money but at a level below participants' conscious awareness. Thus, priming acts as a nonconscious reminder of the concept of money" (Vohs et al., 2006: 1154). This is to say that there are evidences of unconscious experiencing of the money which leads to a changed behavior - raised self-sufficiency and raised social insensitiveness - at the same time. The actual disembodiment of money from its intrinsic value through governmentally issued fiat money – which is intrinsically useless – and its usage (Hoppe, 1994; Ritter, 1995), its appearance and production we live in **is generating socioeconomical changes**, disembodiment which can be traced since the commodity money become a paper money. These processes are leading to an academic reasoning whether "...the use of paper money carries the risk of total and permanent value annihilation" (Hulsmann, 2008: 32). We can also observe a second level of disembodiment of the fiat money – a fairly loose relationships, especially from last decades, between measures of the money supply and macroeconomic indicators like gross domestic product (GDP), inflation indexes and central banks targets. So, we may say that newest trends in governmental money supply policies are not anymore in consent with Milton Friedman monetary theory and "As a result, the importance of the money supply as a guide for the conduct of monetary policy in the United States has diminished over time. The Federal Open Market Committee, the monetary policymaking body of the Federal Reserve System, still regularly reviews money supply data in conducting monetary policy, but money supply figures are just part of a wide array of financial and economic data that policymakers review" (FED,

2020). Contemporary forms of dematerialized money and digital banking allow now through the interbank system Society for Worldwide Interbank Financial Telecommunication (SWIFT) transfers of money between continents, money laundering, and reinvestment of the dematerialized money to be made within a second. Only a century ago that was absolutely impossible. Nowadays, latest development of the rapid technologization of our lives and marching omnipresence of digitalization led us to enter into the environment of decentralized, block chained and digitalized quasi money i.e. cryptocurrencies. We may use a following definition of cryptocurrencies “Cryptocurrencies are peer-to-peer electronic cash systems which allow online payments to be sent directly from one party to another without going through a financial institution. Therefore, unlike the vast majority of other financial assets available, they have no association with any higher authority, have no physical representation and are infinitely divisible. Also, unlike traditional financial assets, the value of cryptocurrencies is not based on any tangible asset, a country's economy or a firm, but instead are based on the security of an algorithm which is able to trace all transaction.” (Corbata, Lucey, Urquhart, Yarovayan, 2019: 182). Yet, how should we interpret the appearance of cryptocurrencies and virtual money and their rise at the current state of socio-economic relationships? Bitcoin is the first and still major cryptocurrency with a market capitalization of \$225 billion as of October 2020. Its capitalization has skyrocketed for last five years from just a \$4 billion as of March 2015 and the price of Bitcoins attacked unbelievable levels of BTC/USD \$19000. Apart Bitcoins there are numerous crypto instruments and their total amount has an impressive capitalization of \$356 billion as of October 2020 (there are more than 800 quoted on the www.livecoinwatch.com). The Central Bank of Lithuania launched officially on July 23 2020 its digital collection coin LBCoin, a cryptocurrency based on a NEM blockchain. LBCoin become first known central bank-issued collectable digital currency and as a such is challenging European System of Central Banks (ESCB) which now is evaluating central bank digital currencies (CBDCs), blockchain technologies in monetary policy, security and efficiency of payments as a plausible future means of payment (Boar, Holden and Wadsworth, 2020).

Here in this paper the author will make an additional clarification to the above-mentioned definitions, explanations, applicability and philosophy of the cryptocurrencies.

Firstly: we argue, that cryptocurrencies possess intrinsic value (unlike the fiat money) being a form of preserved electricity – as the electricity and energy is the main source of production of this quasi money. In terms to clarify the electricity and energy consumption we will give here the figures valid for Bitcoins in year 2018 “The annual electricity consumption of Bitcoin increased from 9.5 TWh till 50.8 TWh in the last 12 months, and in February 2018 Bitcoin consumes as much energy as Uzbekistan, representing 0.23% the world's electricity consumption” (Corbata, Lucey, Urquhart, Yarovayan, 2019: 195). Hence, we argue here, that the minimum value of cryptocurrencies is covered by the price of electricity and energy needed for the mining of one cryptocurrency, which actually is form of preserving the electricity i.e. energy spent for its production “Electricity costs are a substantial fraction of overall costs — a fraction that is relatively stable over time. For example, if we use a ballpark figure of 50% for this fraction, the equilibrium model suggests that Bitcoin miners currently collectively expend roughly USD 6 million per day worth of electricity” (Narayanan, 2018). So, cryptocurrencies are born and alive on energy and electricity, because usability requires electronic platforms for crypto transactions and trading.

Secondly: we argue that cryptocurrencies possess intrinsic value (unlike the fiat money) being a form of unbreakable and digitized “smart contract” – what might be perceived as a new form of building block of the market economy. The term smart contract was coined by the cryptographer Nick Szabo in an article “Formalizing and Securing Relationships on Public Networks” published in 1997. Szabo described the heritage from the past in the field of law and market economy as follows “The contract, a set of promises agreed to in a "meeting of the minds", is the traditional way to formalize a relationship. The contract is the basic building block of a market economy. Over many centuries of cultural evolution has emerged both the concept of contract and principles related

to it, encoded into common law. Such evolved structures are often prohibitively costly to rederive. If we started from scratch, using reason and experience, it could take many centuries to redevelop sophisticated ideas like contract law and property rights that make the modern market work. But the digital revolution challenges us to develop new institutions in a much shorter period of time. By extracting from our current laws, procedures, and theories those principles which remain applicable in cyberspace, we can retain much of this deep tradition, and greatly shorten the time needed to develop useful digital institutions” (Szabo, 1997). Szabo also described functionality of the smart contracts “Smart contracts utilize protocols and user interfaces to facilitate all steps of the contracting process. This gives us new ways to formalize and secure digital relationships which are far more functional than their inanimate paper-based ancestors” (Ibidem). Consecutively Nick Szabo designed a model of modern cryptocurrencies in 1998 describing a decentralized digital currency called Bit Gold. As in the 21st we are living in the digitized socioeconomic state and rising domain of blockchain technologies (since 2008 as a result of blockchain technology and the bitcoins emergence), hence cryptocurrencies based on the blockchain technologies, we may assert, that current environment implicitly inherited Szabo “smart contract” insight - being made more than 20 years ago. Yet intrinsic value of the cryptocurrencies is making smart contracts possible and vice versa, because decentralized cryptocurrency protocols are essentially smart contracts with decentralized security and encryption. So now one of the most important understandings and basics of the cryptocurrencies is as follows “...sequence of records that is collectively maintained by a set of stakeholders and is designed to support the addition of records while resisting modification or deletion of existing records. This is achieved by a technological mechanism that protects the integrity of the data even if any minority of participants attempt to undermine it” (Narayanan, 2018).

Apart the emergence of the technological production possibility – as a precondition for cryptocurrencies i.e. crypto money – **what is predicate for changing by itself the payment and monetary system i.e. socioeconomic state of the present**, we may trace in the evolvment and spreading of cryptocurrencies, without any overreaction bias from our side, the individual and societal mistrust to fiat money creation and lack of intrinsic value of fiat money. So, this (technological production possibility) will be the technological precondition, we name here as a Rational reason (a priori fact - which does not depend on sense experience), for the cryptocurrency emergence. The individual and societal mistrust to fiat money and its lack of intrinsic value, we name here as an Irrational reason (a posteriori fact - which depends on sense experience) for the cryptocurrency emergence arises from market economy scarcity and socialized experiencing of socioeconomic state of the present i.e. poor and unhappy people are envying (willing new state of the present) the opposite part of rich and happy people. Yet, a posterioricity of irrational (non homo economicus) experiencing of a scarcity is provoking anger and self-attribution effect, for all those unhappy and not rich against building blocks of market economy - central-banking system, governmental creation of fiat money and justice system “ruled” by minorities of happy and reach people. Hence, such a state of the present triggers a will to way out of it trying to find a new form of justice or and equalization of possibilities for the majorities. The individual and societal will to break out from the chains of central banking fiat money and central ruling of us and escaping to a technological and decentralized trust of blockchain sequencies and smart contracts, might be unconsciously embodied into the blockchain/cryptocurrencies trust, causing equality perceiving/experiencing. Equality which is based on the pre-agreed formulas and technological rights - where everybody depends on everybody and everybody controls everybody with no centralized control of rich to the poor people and everybody can mine a coin. So, to clarify above stated – omnipresence of internet as a sixth factor of production and its relatively low price as a factor of production and technological possibilities are Rational reason for cryptocurrency emergence. Second reason of the cryptocurrency emergence and spreading is a result of the complexity of the democracy evenness and individual and societal mistrust to central authorities,

but not only. This is the Irrational reason of the will to become, technologically and virtually, more moral, more equal with the trust-controlled technological rules through unbreakable blockchain sequences of smart contracts. Yet, my reasoning here is opening the Immanuel Kant formulas of moral law and trust, explained in his fundamental philosophical work “Groundwork of the Metaphysic of Morals” (1785). The new formulas of the morality and its understanding, presented by Kant in “Groundwork of the Metaphysic of Morals”, are setting a limit for experiencing of the happiness by ourselves and the others and applying a notion of a categorical imperative for to explain what we may and what we may not do. These limits are actually broken by the irrational behaviour of humans at the current stage of the humanity development were, we are standing as a primordially immoral and ethically irrational – hence we are predisposed of breaking the trust and the socioeconomic harmony. This primordially is explicit and immanent part of the Lords biggest gift to us – the free Will – which might be used for good or for bad. Insofar the dualistic nature of the free will implicitly leads humanity to choose – to be moral or immoral to trust or to mistrust. The mistrust in our societies (because we are irrational or/and naturally bad and mistrusted/ing by the socioeconomic organization) provokes inevitably moral deviations what causes next mistrust and next moral deviations in societies and disintegration of societal values, ethics and morality “...and a trust once lost to me might become much more disadvantageous than any ill I think I am avoiding” (Kant, 2002: 18) and as a final cause, according to Kantian reasoning, inability to build ideal community in which people are never merely used by others, and no one acts on principles to which others could not consent. As we a priori live in the domain of absent or deviant or inconsistent or not accepted by society/societies universal morality and ethics we do suggest that Kantian Formula of Autonomy “...the third practical principle of the will, as the supreme condition of its harmony with universal practical reason, the idea of the will of every rational being as a will giving universal law” (Kant, 2002: 49) interconnected to The Formula of Universal Law to “Act only in accordance with that maxim through which you can at the same time will that it become a universal law” (Kant, 2002: 42) and impossibility to adopt Formulas at the current state of the socioeconomic development on earth, causes these formulas to be a posteriori and unconsciously sublimated/experienced in/trough the blockchain technology, smart contracts and cryptocurrencies – for to restore and experience the rule of morality (ideal community) in the cryptographic i.e. rationalized mathematically, but virtual world, because of the impossibility for immature, irrational and emotional nature of humankind to act good and morally – under the conditions of material world, unconscious priming of the money and primordial dualism of Lord rules - free Will to act good or to act bad.

Apart the existence of blockchain technologies we live in the environment of virtual economies and virtual money. “The term ‘virtual economy’ (VE) refers to the process of exchanging virtual items and services with virtual currency within a virtual world. A virtual world (VW) is an avatar-based 3D platform, in which avatars represent real-world users. An “avatar” – in the context of virtual world – is a graphical representation of the user, in a three dimensional (3D) form, through which the user can interact with his/her surrounding virtual environment, participate in virtual events and activities, and communicate with other avatars (Henttonen et al., 2009; Liu & Williams, 2008; Nah, Schiller, & Mennecke, 2011). Avatars can exchange Instant Messages (IM), virtual currency, and virtual objects.” (Nazir and Lui, 2016: 2). The virtual economy of Second Life is valued at around \$600-700 million and “As of 2014, the total transaction value among users in SL alone was US\$ 3.2 billion, which is more than the total annual trade that was expected of all the virtual economies combined in 2004” (Ibidem: 2). The global market of virtual items and identities (characters) and currencies was approximately \$2.1 billion in 2007 (Lehdonvirta, 2009), and five years later in 2012 it was \$14.8 billion. It was projected to increase at an annual growth rate of 12.5 percent to 2016 as per the TechNavio Report in 2013. Available data for the different types of virtual worlds/games

and items differs significantly but there are some comprehensive studies validating really big volumes on that segment (Lehdonvirta & Ernkvist, 2011).

THE EMERGENCE OF POSTMONEY

The process of dematerialization of money has led to decoupling of the digital form from the original carrier and the beginning of new and independent existence. Already, the presence of virtualized money leads to the emergence of virtual worlds, products, identities and services that serve the existence of dematerialized money rather than as previously – money to serve physical trade in material goods. The virtualization of money and its value, enables the existence of virtual worlds, economies and currencies. If we accept the statement that: 'Time in the virtual worlds means nothing' (Castronova et al., 2009), then time shall be measured only through a price expressed in money, arbitrating between saved and spent earth time to achieve a level, goods, images, and services in virtual worlds. Therefore, we can make the following hypothesis: the immateriality of time in virtual worlds leads to the immateriality of everything else, i.e. of virtual goods and services, identities, etc. and so they have no commensurate point of reference in the physical world. As a result, money arbitrage between saved and spent earth time, makes money to be no longer just a means, but to become an aim in itself. This transition from physical to virtual and from means into an aim creates the notion of Postmoney (Ivantchev, 2015) and predisposes and opens a reasoning about buyability of the more earth time for humans namely buyability of more years of life for humans. Serge Moscovici explains: "... but what is this mystery? It was money that led the way and has succeeded best in it, for money's entire significance does not lie in itself but rather in its transformation into other values. Now this evolution is contrary to reason and almost smacks of a modern miracle. In fact, how is it possible that a means has been elevated to the dignity of becoming an ultimate goal. In this resides the magic of money and its authority over all the rest" (Moscovici, 1993: 289). So, as it was explained in the "Postmoney Theory: Value Function in the Domain of Postmoney" (Ivantchev, 2018) the perception, understanding and psychological experiencing of the money notion, is relevant to be made from the temporal context and perspective of the equivalence of content between object and concept. From the Kantian reasoning and his brilliant ideas in Critique of Pure Reasoning, we can extract the philosophical construct of inequivalence between the a priori - a posteriori empirical content of experiencing/possessing money and its object-concept relationship:

1. A priori money: "Thus, the actual contains nothing more than the merely possible. A hundred actual dollars do not contain the least bit more than a hundred possible ones"
2. A posteriori money: "But in my financial condition there is more with a hundred actual dollars than with the mere concept of them (i.e., their possibility) Thus whatever and however much our concept of an object may contain, we have to go out beyond it in order to provide it with existence" (Kant, 1998).

Thus, the concept of Postmoney Theory (PMT) assumes that: The inequality and changeability over time, of and between a priori - a posteriori experiencing of the content of money's object-concept, is inherent of the money phenomenon and its persistence over time. Having in mind above mentioned basis for explaining the postmoney, now we will exemplify how a posteriori psychological experiencing of the money is already changed i.e. confirming the existence of Postmoney and PMT. We do state here that diminishing marginal utility of the wealth and money is not anymore valid, contrary to widely accepted concept of diminishing marginal utility explained by many economists since last two centuries including Herman Gossen (1810 – 1858) and Carl Menger's concept of diminishing marginal utility in his work "Grundsätze der Volkswirtschaftslehre" (1871). Respectively the Value function and psychological value of money – described by Amos Tversky and Daniel Kahneman - is also not valid anymore. This is because in the environment of the technological development in longevity industry and scientific raising of possibility to increase

human lifespan and possibility of buying more years of healthy life, the curvature of the marginal utility and psychological value of wealth/income/money is not anymore logarithmic function i.e. diminishing but changes its curvature to linear and even exponential. Thus, marginal utility and psychological value of money under such a circumstance is rising and becoming postmoney. That is to say the PMT reshapes the understanding of the money utility and changing it to Postutility opening the kingdom of PMT. Above stated changes are confirmed by the results of the especially constructed by the author of the paper national representative Postmoney survey (Ivantchev, 2018), based on a random sample (n, 1000) of interviews with adult Bulgarian citizens in 92 localities and 125 cells and with margin of error for the entire sample $\pm 3\%$ and conducted by the leading Bulgarian sociological agency Exacta Research Group, during the period of 5th – 12th July 2017. Model of the survey sample uses three-level cell with probabilities, proportional to the size of the municipalities. Survey sampling is based on the modified cartographic model of the Leslie Kish. First level - selection of the municipality among all the 265 municipalities in Bulgaria; Second level - selection of the cells in the localities; Third level - random selection of the household addresses, where the respondents are selected. The selection process of the adult respondents inside of the households is made as per the modified Leslie Kish method. Registration method of the survey uses a face-to-face, semi-standardized interview³ with the respondents at their homes.

Survey results are clearly showing that there are statistically significant results for a changed perception in the population of Bulgaria for the value and notion of money, as well as its transformation into Postmoney. On the first question (*Let's assume, that next 15 years the science will guarantee, that it will be possible to buy 30 years of life more (for You/Your children). In that case, shall the money be more valuable to You?*), 35% of the respondents are confident that money will be more valuable. The large percentage of respondents which answered with "I don't know" (24,1%), may be interpreted as a normal outcome given that it is relatively early for a great part of Bulgarian society to envisage and understand the upcoming scientific achievements. Therefore, there is a non-negligible likelihood that these "undecided" respondents would join the first group in the future. On the second question (*How much more valuable will the money be?*), the prevailing share of the respondents (40,8%) are confident that "Money will be so much more valuable, that it will be more than money". As per the Exacta Research Group, it will be correct to also add to this number the respondents selecting the statement "Money will be twice as much more valuable" (25,9%). This is due to the point of view of the national folklore in Bulgaria (and so to say neurolinguistically), to consider that the phrase "twice as much" means a lot more than its simple mathematical content.

The analysis of the collected data was made by scaling the power of each question from (without the answers "I don't know/I cannot answer") and plotting a function with best fit. The value of R^2 is examined for the linear, stochastic, and logarithmic functions. However, the value of R^2 for all the functions is high and above 0,9 (linear=0,989; exponential=0,965; logarithmic=0,913) the best fit is for the linear and exponential shape of the curve.

³ Face-to-Face interviewers possess a longstanding experience in making interviews of this kind. They are involved each month in conducting different surveys and have special training for cases with particular interview-questions, including training on how to behave during the interviews.

Table 1 Linear

Estimated Coefficients:	Estimate	SE	tStat	pValue
(Intercept)	-0.071	0.024094	-2.9468	0.098444
x1	0.116	0.0087977	13.185	0.0057029

Number of observations: 4, Error degrees of freedom: 2
Root Mean Squared Error: 0.0197
R-squared: 0.989, Adjusted R-Squared 0.983
F-statistic vs. constant model: 174, p-value = 0.0057

Table 2 Logarithmic

Estimated Coefficients:	Estimate	SE	tStat	pValue
(Intercept)	0.028827	0.049706	0.57995	0.62058
x1	0.23936	0.052328	4.5742	0.044619

Number of observations: 4, Error degrees of freedom: 2
Root Mean Squared Error: 0.0545
R-squared: 0.913, Adjusted R-Squared 0.869
F-statistic vs. constant model: 20.9, p-value = 0.0446

Table 3 Exponential

Estimated Coefficients:	Estimate	SE	tStat	pValue
(Intercept)	-3.3584	0.23889	-14.058	0.0050218
x1	0.64376	0.087232	7.3799	0.01787

Number of observations: 4, Error degrees of freedom: 2
Root Mean Squared Error: 0.195
R-squared: 0.965, Adjusted R-Squared 0.947
F-statistic vs. constant model: 54.5, p-value = 0.0179

CONCLUSIONS

Money complexity as socioeconomic and psychological (conscious and unconscious) phenomena is so complex, that even the way money is produced through the years can reshape and transform not only the monetary systems but also the basis and paradigm to experience the money. Re-embodiment of the money intrinsic value through emergence of the cryptocurrencies and its features as a electricity preservations and smart contracting intuitively led to will to restore the experience of the rule of morality and ethics into cryptographic i.e. rationalized mathematically, but virtual world, because of the impossibility for immature, irrational and emotional nature of humankind to act good and morally – under the conditions of material world. Shift of the money phenomena towards virtual re-embodiment and re-establishing the intrinsic value through socioeconomic technologization and longevity advances opens a question for the postmoney experience and postmoney theory viability. So far the results we possess from the postmoney survey are validating the postmoney theory and they are challenging the validity of diminishing marginal utility of income

and wealth as well they are challenging the validity of value function and diminishing psychological value of money. Current study of the postmoney and postmoney theory will continue in the future finding new evidences for a posteriori changed experience of the money and their qualitatively changed nature into postmoney.

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GREECE STATE BANKING INSTITUTIONS AND FINANCIAL SUPERVISION

(A review of historic origins of contemporary institutional frameworks)

Ioannis Iakovidis¹, Directorate of Secondary Education of Imathia, Veria (Greece)

Abstract

In this article the author presents a different perspective on the recent economic crisis of Greece, focusing on the history, the creation and the operation of large financial institutions of the country. The financial crisis of 2009-2015 and after is analysed as a phenomenon that affects and was rooted in the administrative dysfunction of Greece' public governance. The article makes an attempt to collect and examine evidence of the influence of interest groups, an influence that inflated and contributed to the emergence of the foreign debt and banking crises via the means of manipulating the state, economic institutions and policy implementation.

The following historical references are summarized here because we need to understand that, from the origins of the contemporary Greek statehood, there are external factors which control the Greek economy, thus the country itself. Their contribution has to be compared to the situation in Ireland, Portugal and Spain – countries that, like Greece, received financial assistance from the EU and the European Central Banks (ECB). Records show that the financial conditions in those countries are different: Greece and Portugal have excessive fiscal deficit and public debts, in contrast to Ireland and Spain which are not faced to “Greek-type” of challenges. Instead, they have had a really responsible attitude towards the public finance management (Galenianos, 2015)

In 2008 all these economies have faced higher and excessive external debt and large trade deficit. In a sense one could have concluded that the crises they were entering was due to external, not to internal, factors and circumstance. In Greece, these external factors have been interpreted and dealt with as if they were own substantial feature of Greece as an economy and a country.

And there specific historic reasons to treat otherwise typical economic developments as something characteristic for Greece.

From 1830, along with the creation of the contemporary Greek country, the system of authority and state power has been devised to be used in a manner that frequently and persistently put the country's public finance under strain. The roots of this policy pattern are to be found in the first years of emerging modern Greece in 1830, or, perhaps, even earlier – in the times of the Greek national-liberation movement of 1821s.

¹Ioannis G. Iakovidis - Directorate of Secondary Education of Imathia, Veria (Greece) of the Ministry of Education. Ioannis Iakovidis holds a PhD in Political Science (Public Administration) from the Department of Public Administration at the Faculty of Philosophy at Sofia University “St. Kliment Ohridski”, and MSc in Public administration and European Public Administration of the same institution.

How actually this scheme has been implemented and worked? What has been its relation to the economy of the country? What is the relation between the credits and the unsatisfactory economic performance in most of these 200 years?

Here, the «subject» of control from the creditors, is the country itself, and its tools are the loans, financial policy, the economy and the bank system, especially the control over the dominating industry. This institution was the «National Bank of Greece», which later, as it will be explained below, had evolved into, or received by a political consent, an additional function of a «Bank of Greece» or a central bank.

Thus, the audit of the country's public finance and the financial supervision of all institutions has been performed by a bank, which itself was a part of and controlled the market, possessing extraordinary rights in key economic sectors. The public audit function was performed with delegated supervision rights to foreign patrons of some groups which sought to redistribute a large chunk of the budget revenues at own discretion, creating a stagnant economy, blocking with advancement, transparency, meritocracy, laws and especially hindering the development of citizens' life. This way, a favorable situation for benefited the so called "groups of interests", or, in Greek – Προσοδοθήρες (those who receive the profit), as they were name by Pelagidis and Mitsopoulos (2006).

AN ESTABLISHMENT OF MUTUAL RELATION BETWEEN EXTERNAL AND INTERNAL INTERESTS

The Central Bank and the Government

In Greece, the «system» first emerged as «*National Bank of Greece*» (NBG). NBG obtained extraordinary rights and at the same time created a unique type of monopoly, according to which this bank has been a principle agent of the country's economy in that period and after. Since the moment of its creation (announced on March 30, 1841) NBG has been the bank that dictated the rules of the game (Bank of Greece, 2014²).

NBG was a private joint-stock company with a monopoly over the coin-and-note emission for a period of 30 years. In other words, a private company was responsible for money creation in a country where it faced no completion. As it is admitted by the NGB's own official *Historical Chronology, from 1841 to 2006* NBG has enjoyed special prerogatives.³

External and Internal dependencies

NBG used to borrow money from the Government, in order to finance both the government and the economy against a pledge on its own shares. This exclusive "right" resulted in a control of the entire country's economy. Some most important extended NBG loans are the following:

- A) 500.000 drachmas loan of 1848, against a pledge of 500 own shares
- B) 1850, 330.000 drachmas loan over a bet of 330 bank shares
- C) 1853 (October 14), the government borrowed from NBG 5 million drachmas, with a 6% interest over bet of 1.000 bank shares.

Additionally, in 1859, the NBG obtained the right to issue mortgage loans, thus creating the mortgage (real estate) credit market of country.

On December 16, 1861, NBG (via special law) had been granted the privilege to print money for the period until 1891.

The NGB-to-Government credit deals, including repayment schedules were structured in different ways with a common denominator a nationalization or a government monopoly, or granting an exclusive right on source of fiscal revenue.

² The first attempt to create the National Bank of Greece is from 1836, via a national newspaper, 2, from January 25th. The attempt has been unsuccessful.

³ See: <http://ha.nbg.gr/IAETE165/Chronicle.pdf>.

One of them was by granting a concession, or the right to concession revenues, for which purpose the government nationalizes the resource that is the ultimate source of income. For instance, one of the loans was to be repaid by the revenues from the only Smirida Stone quarry on the island of Naxos⁴ for three years. Another method was to grant a portion (50%) of the revenues from the customs in Athens or Patra.

From 1870 until the First World War the international is that the payment is done either by an assets transfer from countries, which borrowed loans from creditors or, as suggested above, by an income transfer as done in 1898 under the agreement between Greece and the International Finance Commission (IFC),⁵ or by rights transfer – in Greece's case, by the established for the purpose *Greek Monopoly Management Company*⁶.

In all these schemes of government borrowing and repayment of loans, the NBG either plaid a central role as a mediator, or served as a direct lender and/or beneficiary. The interest of the creditors from abroad was actually represented by NBG (with the consent of the authorities), while the bank itself was controlled by a fixed number of shareholders.

The country's economic, social and political life, *groups of interests* have been activated to gain large parts of the revenue in the economy. The extraordinary situations, created by this institutional has led to recessions, weak historic economic performance and downturns, economic insecurity and political instability.

The functionality of the country's finances is problematic. The «*groups of interests*» distribute bigger part in the profits in economy and the budgeted revenues. The financing tools (Funds) come from loans, given from abroad under unstable conditions. The creditors want to control the economic state of the country, as they have to receive money and do this by using tools from the «*National Bank of Greece*» (NBG) and the «*Bank of Greece*» (BoG).

Loans from abroad could not be serviced regularly, mainly due to effective lobbying, while the country could not finance its internal needs, and, thus needed new borrowing, and the new loans came up ever with stricter terms and conditionalities. Apart from this, the borrowed resources were not used with a multiplying effect for the economy. They were instead used mainly to support different pre-election commitments of political parties' rivals, unjustified privileges of trade unions as it mainly refers to an absurd case, not for logical rights, in order to satisfy the «*groups of interests*». This situation hindered the means of economic development and modernization, as well as it prevented the policies of relief, welfare and advancement of the socio-economic life of the citizens.

INTERLINKS WITH THE POLITICAL SYSTEM (HISTORICAL PRECEDENTS)

The mutual relationship between NBG, Greece creditors and its political system is evident by from the in-depth studies of the political situation in Greece, its politicians and main NBG founders and shareholders.

⁴Smirida (in Greek «σμίρις», in the local slang σμυρίγλι) is a black stone, with qualities similar to diamonds, its ores are to be found only on the island of Naxos in the District of Argokoili.

Editor's note: IFC was a special body set by the creditors of Greece after series of defaults in the second half of the 19th century, see: International Financial Control, https://en.wikipedia.org/wiki/International_Financial_Control. Waibel, 2014 discusses analogies between the situations around Greece's governmental defaults of the 19th century and today.

⁶The *Greek Monopoly Management Company* has been created by the Country, over the power of the Royal Decree on 27/10/1887, which aim is to Renew (collecting money and revenues from the country from credit collaterals and the management of existing country monopoly. After the Greek-Turkish war in 1897 and the imposition of International Finance Audit (law ΒΦΙΘ/1898), it was renamed to Company of management and serving the national debt. The Company has been audited by IOI, as it has been obliged to devise a 6-month balance and publish it in, at least, 1 newspaper in Athens, Berlin, Paris, London and Istanbul. In 1958, it was renamed to Greek State Monopoly Management Company. The company has slowly lost its aim after Greece entering the European Economic Society. (As all types of monopoly have been removed) and after (in the beginning of 1980) IOI's mission has finished, it has been de-listed from the stock exchange in 1993.

When it comes to the political situation after 1832, political parties which dominated in Greece were the political parties: the “Russian”, the “French” and the “English” one.

In February 1833 (Iakovidis, 2012), the new king of Greece, Otto, with the English frigate *Madagascar*, and a commission of three regents: Count Josif Ludoviko Armansperg as a president, Georgio von Maurer and Major General Karl Heideck arrived in Nafplio. These foreigners were keepers of the internal order in Greece. By May 1835, Otto had grown up and as a capable adult obtained had all the power, and at the same day, one of his regents, Armansperg, was appointed as a Prime Minister. The presence of foreign influence in the heart of Greece’s government was obvious and strong. The important figure in Otto’s policies was his personal economic counselor – Max de Rothschild.⁷

In November 1841, the relation between NBG and Rothschild was established, as pointed in the NBG’s official chronology. When established the stock-holders were:

- Greece: 1.000 shares
- N. Zosimas: 500 shares
- Jean-Gabriel Eynard: 300 shares
- The King of Bavaria, Ludwig: 200 shares
- K. Vranis: 150 shares
- T. Rallis: 100 shares
- (to this point: 2.250 shares)
- and the bankers Rothschild and family

But the last line in the list is an assumption. And while it refers to who owns the 2.250 shares it remained unclear how many shares *the bankers Rothschild and others* hold. However, there is no other explanation but that the majority share allowed *Rothschild’s and Rothschild* controlling the NBG and the emerging banking system. As to the thousands shares of Greece as a state, they were owned by BoG but then diluted by a series of operations. Other important names among shareholders of BoG are those of King Ludoviko, from Bavaria - 200 shares, I. G. Evnardos⁸ with 300 shares, and Rothschild – unknown number of shares.

The correlation between the external capitals and the Great Powers is obvious and undisputed. This is why the creditors and the interested countries, created NBG, or just participate in the creation and functioning of its administration actively, aiming for a direct intervention in the internal work of Greece.

BoG as such

⁷ The following text is from the Greek Central Jewish Counsel’s web page and shows Rothschild’s attitude towards Greece: «Rothschild’s and Greece: Rothschild’s relation to the Jewish in Greece are from the early times of the Greek Revolution. In Europe, members of the family, supported the Greek revolution for independence both financially and morally, using the politics and their social influence in the diplomatic circles in Europe. Max de Rothschild came in Greece with King Otto’s management and served as an economic counselor for a few years. In 1889 the Greek country admitted the IK⁷ officially to Atina. In 1890, Charles Rothschild, Max’s son, became the first president of the Jewish society of Atina. In 1897, Baron Rothschild Ferdinand visited Atina, and met the Minister I. Kolleti to talk about questions, regarding the Jewish society». See: The Jewish Community Council: http://kis.gr/index.php?option=com_content&view=article&id=402:2009-07-03-10-35-03&catid=12:2009&Itemid=4, προσπέλαση 8-12-2014

⁸ I. G. Evnardos, a French-Swedish banker, a passionate friend of the Greeks and a pioneer photograph. He comes from Lion, France; his family is well-accepted in the aristocratic circles, he manages banks in Italy. In 1810, in Geneva, he met Yoanni Kapodistria, who managed to suggest him ideas of love and compassion to the Greek national aim. While the revolutions for independence happened, Evnardos raised funds in order to buy ammunitions and through acquaintances from higher level, he tried to influence important European names, who protected the Greek. He was the initiator of creating the National Bank in Greece and had been the honored representative. In 1847, he stood against the requirements of English bankers to maintaining an earlier loan(1832) under unbearable circumstances and paid his own compensation of 0.5 million gold francs (have a look at: [Eynard, Jean-Gabriel - http://www.sansimera.gr/biographies/210#ixzz3LFNhcZIR](http://www.sansimera.gr/biographies/210#ixzz3LFNhcZIR))

In 1927, Greece applied for 9 million Pound Sterling from the League of Nations, to support the monetary base of the central bank and finance the budget deficit. On September 15, the same year, a protocol was signed and the respective agreements were concluded, and on November 10, the respective government decree approving the borrowing was adopted, published and enforced. It stipulated the creation of a special institution with an extraordinary right to emit notes, as the loan had been given by this condition. The name of the new institution is “*Bank of Greece*”⁹. So, NBG («*National Bank of Greece*») has been divided into two parts, the first part – «*National*», has continued to serve its commercial significance, but the extraordinary right to emit notes has been given to the new institution the «*Bank of Greece*» (BoG).

The status of the Bank of Greece: background and excerpts:

The status of the Bank of Greece was added as Appendix IV to the Protocol, which conditions were approved by the Counsel of the League of Nations, approving a loan of 9.000.000 pounds and signed by the Greek Government in Geneva on September 15th, 1927. The protocol was ratified by a legislative decree on November 10th 1927, which was announced with Law 3423/7.12.1927 z. Performing the Protocol, on October 27th 1927, was the signature, in Athens between The Republic of Greece(the Greek country) and the National Bank of Greece, of a contract for the withdrawal of National Bank of Greece from the privilege to print notes and the creation of a new bank called Bank of Greece. This convention, as well as the charter added to it, which The Bank of Greece has been created with, were ratified with another charter from November 10th 1927, announced with Law 3424/7.12.1927 (State Gazzeter A 298).

The status aimed at benefitting government effort to overcome serious economic and financial challenges on the aftermath of a series of wars. As mentioned above, prior to the creation of the BoG, the functions of a central bank were performed by the largest commercial bank of the country – the NBG. According to the League of Nations, NBG is incompatible (today we will say – conflict of interests) with the exertion of public power as the emitting of notes, together with the commercial banking activity. To BoG, the new bank, assets from NBG were transferred – e.g. gold, government bonds and liabilities, as well as the emitted notes and government deposits.

Thus, the bank starts to distribute notes to the local market at the country’s expense. The Protocol from Geneva defines the amount of drachmas in gold and it is indicated that the drachma will follow the policy of the gold standard.

Actually, according to article 4 of the BoG charter:

«The main aim of the bank is to provide stable quality – gold/bonds. In order to achieve this, the turnover and religion of Greece must be regulated, according to this charter»

BoG started to function on May 15, 1928.

In State Gazette № 298/07.12.1927, a law 3423/1927 was published and promulgated, in order to make sure that the Geneva Protocol is observed and the privileges associated with currency emission are transferred to BoG.

With this in mind, one should recognize that the efforts to create BoG were actually an audit of the economic state of the country from its external creditors and individuals who previously made and attempt to open an another bank institution, the «*State Bank*» in 1892. The attempt coincided with the establishment of a new government that of Trikupis.

It was believed that Trikupis would help Greece overcoming the economic (and default) crisis and the international climate will change in favor of Greece. Trikupis insisted on a balanced

⁹ Have a look at <http://www.bankofgreece.gr/Pages/el/Bank/History/foundation.aspx> (the documents below are from the same page of the Bank of Greece)

budget and applied hard budget constraints, imposed new taxes to cover the deficits, but the new taxes were at the expense of classes with low income and benefitted the big business while being tough for the middle class (Svoronos, p. 103)

In order to deal away with the lack of economic development, Greece applied for a new loan from English and French creditors, but the application was rejected. The French banks insisted on of the consolidation of the outstanding debts. In fact, this was a request for a default and of an appointment of trustees to collect and distribute to creditors the budget revenues. This would not be a precedent, similar developments took place before the establishment of BoG but a default of a central bank of a country would have had a longer term negative impacts. This was an argument for the British creditors to insist on extending the loan in support for the promising PM Trikoupis (Dzokas, p. 176).

With the creation of BoG the NBG lost its right to issue money and regulate the banking industry of the country. But BoG is still a private bank that regulates exchange rate and guarantees the stability of gold standard in monetary policies, thus influencing the value of the money and the terms of credits to the government (while the gold is owned by the government, by the state of Greece).

The BoG constitution also stipulated that the government cannot own more than 10% of shares of BoG, thus 90% has been reserved for private possession. No one was allowed to control the bank except for one government supervisor, whose personality was not to be disclosed. Most important was Article 50, according to which the BoG is not subjected to any regulatory act of other authorities and had the privilege of complete self-managed. The provision of Article 72 stipulated that the legislation regulating shareholding companies and banks is not applicable to the BoG and that it is exempted from all forms of taxation.

An important objective is envisaged by Article 17, according to Greece grants the BoG the right to keep and manage the gold reserves of the country¹⁰ and to withdraw Greek Gold outside Greece. BoG's privileges are proved by the following article from the «TA NEA» newspaper, published on December 14th, 2014:

«Real estate, owned by the Bank of Greece, which are tax exempted from all direct and indirect taxes, duties, etc, were proved from a consequence of court decisions and the Greek government itself, points the Bank of Greece, responding to the current reports, which were devised on request of the manager Yanis Sturnaras, in order to release the properties of ENFIA¹¹.

In its reply, the Bank of Greece, especially highlights that the same institutional release frame is implied in several EU country members' central banks. The international practice foresees dividend payment to the country over central banks' net profits, which in the case of the Bank of Greece, are 88% of its net profits. Practically, instead of paying taxes, the Bank of Greece pays dividends annually, which collects all duties to the country. Finally, the Bank of Greece reminds that in 2013, the country acquired a sum of 817.800.000 euro.

Finally it highlights that there is another question of discrimination for the benefit of the other, except for the Country, the shareholders, as the last mentioned, always receive a dividend, which never exceeds the minimal 12%, according to the charter.

Having the above-mentioned in mind, another conclusions can be seen, which appear to prove what we suggested above about the institution's prerogatives, as well as the strange property composition of the bank, and their role in the beginning of its creation, regarding its influence on the country's economic state and its relation with foreign funds and foreign creditors of the country».

¹⁰ All the information taken from <http://knossopolis.com/2011-07-09-17-17-48.html>

¹¹ Ενιαίος Φόρος Ιδιοκτησίας Ακινήτων – a single tax of private properties

If it is clear that the BoG is responsible for a sum, equal of 88% of its net profits, it appears: who is responsible for the rest of 12% of its profit? After BoG states that the Government has adopted 817.8 million euro, the following question raises: what the institution's profits are and where they come from? Since the national institution must have accountability and each profit must be given to the country not to be divided as a dividend from the net profit, in the last paragraph, all the information suggested above, regarding the role of the institution, at least in the first years of its creation, as well as its influence on the economic situation in the country, its relations with foreign funds and foreign country's creditors is proved.

Some regularities

As suggested, developments in the time of creation of the new Greek country in 1830, and after that in time of economic crises and national downturns, as well as in time of the recent economic crisis, which also resulted in an international supervision, actually have a lot of similarities. What they are and what is the relation between the crisis in those different historical periods?

1827, 1843, 1893, 1932

1827- Greek loans from England in 1821 and 1824 for preparation and creation of the new Greek country. In 1827, inability to pay interests and sinking fund of the two credits was announced, so Greece was expelled from the international fund market, political instability and wars happened, the revolution still acted with military actions, as the Navarino war, supported by the Great powers (England, France, Russia).

1843- After the creation of the new Greek country, a loan was taken for the well-being and functioning of the country. In 1843, there was a stoppage in paying the installments, which had to pay for the independence loans. The urge of inner funding and paying the debt occurred. France, England and Russia did not allow a new loan and forced Greece to meet their requirements by signing a Cooperation Memorandum.

1893 – There was another loan withdrawals, after which comes the inability to serve them, although they were used for investment in the area of infrastructure and military operations, not only for maintaining the administration.

1897- Greece was under an international financial control and decided to impose taxes on monopoly providers (salt, petrol, etc) and takes a new loan. Six Great Powers (England, France, Russia, Austria, Italy and Germany) imposed financial control through an International economic committee devised intentionally, consisting of the foreign bank-shareholders. Its role was to control and manage the national income, to continue printing notes, take new loans and to control the national fiscal policy (Dzokas, p.188-189). This actions happened due to incident in December 1893, when the drachma lost more than a third of its amount, the government cancelled its obligatory payments in foreign currency.

1932- After a few years of economic stability and development, led by the President E. Venizelos, Greece steered to the advancement of the national infrastructure, but a main tool is again the external funding, since big projects can be funded only this way. Problems occurred with the 1929 crisis. The need of outside help was vacuumed, as well as the League of Nations' Financial Committee. Once again, stopping external help led to Greece being on the verge of bankruptcy.

It is important to point that during all crises, there had been external funding with the participation of countries or organizations, and in Greece, the government had weak in applying policies (i.e. controls of cut expenditures, raised the size of the economy, collect that would deal away tics, underlying in the devised ones, and interested groups started to work, in correlation with the different trade unions, with strong elements of the client country, thus the relation between a politician and a voter started its «historical path».

Common elements in the developments described above are:

- Unstable political satiation

- Repeated public finance mismanagement with repercussions to banking sector as well as the economy
- Need of funding and external loans
- Inability to cope with economic problems
- Rise in the economic problems and going into a crisis(recession)
- The creation of groups of interests and syndicates
- Political client system
- New needs of loans
- Inability to pay the loans
- Payment stoppage
- Stockholders' financial control and establishment of cooperation agreements
- Loss of independence
- Obligation to impose the adapting measures

An important element to the tradition is the circumstance that external debt payments were frozen four times, giving food for thought whether so there is some cultural accumulations in the Greece propensity for a national bankruptcy.

The practice of taking external loans was widely spread in the 19th century, with all its elements, it has been implied in the last 30 years in Greece. The external loans have been a permanent policy for all governments, without actually reporting the real fiscal capacity to collect revenues and pay the dues, as a result of which the country's politics, policies and economy has been often reliant on the "good will" of international markets, stockholders and other institutions and organizations.

The external factor is of vital importance in the crisis' development and management – from its historic occurrence until its resolution, which may not prove that historic – similar challenges may repeat itself in near or more distant future. But, the governments are actually those who sign agreements and are responsible for the provision of credit and help returning conditions. The history's review shows how the external factor works, how to create and support diverse practices in the administrative structure and how the country functions.

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CONSTITUTIONAL TRADITIONS – THE BULGARIAN PERSPECTIVE

Anna-Maria Atanasova¹, Senior expert at the Constitutional Court of the Republic of Bulgaria

Abstract

The term “constitutional tradition” is undefined by legislation and jurisprudence. Considered as a notion of common knowledge, it nevertheless raises questions as to its ideological scope and content. This paper focuses briefly on the different theories for the scope of constitutional tradition and its relationship with national/constitutional identity. It traces the evolution of Bulgarian constitutional history on the basis of which some key elements inherent in the national constitutional model are deduced. Then it places Bulgarian constitutional tradition within the larger context of the membership in the European Union. The article cites several judgments of the Constitutional court which refer to constitutional tradition and draws conclusions for its significance.

DEFINITION AND SCOPE OF CONSTITUTIONAL TRADITION

In the absence of a legal or jurisprudential definition of constitutional tradition the doctrine suggests at least three ways of understanding this term according to its scope. Under the broadest interpretation of constitutional tradition, it may encompass all historically repeating elements of the constitutional model including the practice of its application. Constitutional tradition may also be focused on the distinctive features of the historical evolution of a given constitutional system which differentiate it from the others. Finally, in a narrow sense it may be limited to the fundamental characteristics of the constitutional system which persist over time, the core principles and values of the constitutional order such as the form of government, the constitutional status of individuals etc.²

First, the broadness of the term constitutional tradition conditions a comprehensive approach to its scope which should include not only the specific elements of a given constitutional model or the fundamental values and principles which determine its main substance but also all other subsidiary characteristics which have stood the test of time and have become an integral part of the national judicial and social practice. There is no objective justification for the opposite.

Besides, the Bulgarian constitutional court although abstaining from giving a definition to constitutional tradition has referred to various constitutional elements which have enjoyed a certain degree of stability throughout Bulgarian constitutional history and were therefore considered as traditional.³ Although some of them can be qualified as fundamental and distinctive for Bulgarian constitutional evolution such as the principle of division of powers⁴ or ethnical tolerance⁵ others account for subsidiary characteristics of the Constitution.⁶

¹ Anna-Maria Atanasova graduated, with different awards, the Faculty of Law of Sofia University, currently she is serves as a rapporteur and senior expert at the Constitutional Court of the Republic of Bulgaria.

² Belov, M., “Bulgarian Constitutional Identity”, Sibi, 2017, p. 62

³ A commentary of the jurisprudence of the Bulgarian Constitutional court referring to constitutional tradition will be made further in this article.

⁴ Judgment № 6 from 22.04.1993 on const. case №4 from 1993

⁵ Judgment № 2 from 11.02.1998 on const. case №15 from 1997

⁶ Judgment № 1 from 19.01.2010 on const. case №14 from 2009 – on the power of the National Assembly to give amnesty

This implies that constitutional traditions cannot be limited to previously specified elements of the Constitution considered as fundamental. Constitutional tradition is a complex phenomenon whose elements can hardly be deduced *prima facie*. Its application requires an extensive analysis of the historical, legal and social background of the relevant constitutional texts.

Finally, a narrow definition of constitutional tradition including only the distinctive features of a given constitutional order is more suitable to designate constitutional identity⁷. Limiting the scope of constitutional tradition to the core principles and values of the Constitution risks to omit some of its accessory characteristics whose repetitive application, however, might serve as an important point of reference in case law and a source of better understanding of the evolution of constitutional law.

Constitutional identity has acquired a particular importance as a point of reference in the case law of the Court of Justice of the European Union. The specific relationship between EU law and national constitutional traditions and identity will be briefly analyzed further in the article. Here the focus will be placed on the meaning of constitutional identity and its relationship with tradition.

Constitutional identity⁸ is an integral part of national identity which represents the specific features inherent in a given political community which have developed over time and most importantly - which are conditioned by the specific historic, cultural and behavioral features of a nation. In that respect, it is true that national identity and constitutional identity are conditioned by tradition because they are both formed in the context of the evolution of national being. Constitutional tradition, however, has a wider scope of application than constitutional identity since it incorporates not only the distinctive elements of the national constitutional system but also any other regulation that has existed for a significant period of time.

On the basis of the above considerations constitutional tradition must be interpreted broadly and therefore might encompass various elements such as legal principles and values, particular norms and even institutional arrangements. It should be kept in mind, however, that traditions might live and die and thus some repetitive practices might not reach the present. What is of particular interest for this article are the elements of constitutional tradition that survived until present times and the “journey” which conditioned their current regulation.

Concerning the constitutional values and principles the preamble of the Bulgarian Constitution refers to the “respect for universal human values of liberty, peace, humanism, equality, justice and tolerance”. Chapter one enumerates the main principles of the Constitution including the republican form of government, the direct applicability of constitutional norms, political pluralism, the respect for freedom, equality and dignity of all Bulgarian citizens etc.

Although values and principles are often used as interchangeable terms some scholars draw a distinction between them. They accept that constitutional principles are abstract legal rules with strong normative value which determine the content and interpretation of the whole legal regulation in a given legal system. Constitutional values, on the other hand, are broader ideological concepts which gave rise to the adoption of constitutional principles.⁹ Values have a culturally determined meaning which has been formed in the context of a long-standing tradition conditioned by the specific history, culture and mores of a given community. Principles are constitutional rules which are considered to be a manifestation of the values recognized and approved by the community.

⁷ Belov, op. cit. 1, p. 62-63;

⁸ Some scholars argue that the unamendable or hardly amendable provisions of the Constitution (such as art. 158 of the Bulgarian Constitution) are an important part of constitutional identity: Bliznashki, G., “The Constitution - Nature, Functions and Supremacy”, St. Kliment Ohridski University Publisher, 2018, p. 234. The author of this study supports the opposite line of reasoning requiring a concrete analysis of constitutional texts from a historic and cultural perspective in order to define constitutional identity: Belov, op.cit. 2, p. 70, 194

⁹ Belov, M., “Nature of Constitutional Values and Principles “ in Groysman, S., “Law and Rights. Articles in honor of Prof. Rosen Tashev”, St. Kliment Ohridski University Publisher, 2016, 89-102, at 90-94

Although principles have a universal reach their legitimacy will depend on their compatibility with these commonly accepted values.¹⁰

In that respect, Belov gives the example of the principle of the rule of law which is based on the constitutional values of humanism, equality and justice. He also points political pluralism, democracy and separation of powers which require the existence of tolerance as a constitutional value. The principle of sovereignty is conditioned by peace and equality and so on.¹¹

This differentiation between values and principles is conditional since it does not provide for a firm criterion separating the two categories. For instance, equality is usually considered as a fundamental constitutional principle although it might also be regarded as a value which forms the basis for the existence of numerous other principles. Nevertheless, the usefulness of the differentiation between values and principles consists in the possibility to understand that constitutional norms and principles are not created for their own sake but are a projection of fundamental ideas which have developed long before their codification.

OVERVIEW OF BULGARIAN CONSTITUTIONAL HISTORY

The first Bulgarian Constitution signed in Veliko Tarnovo in 1879 marked the beginning of Bulgarian constitutional tradition after the liberation from the Ottoman domination. As a reflection of the longstanding egalitarian and democratic values in Bulgarian society, the Constitution from Tarnovo is among the most liberal and progressive of its time. It provided for a wide array of fundamental rights and freedoms among which a universal, direct and equal suffrage right of all male citizens without any educational or proprietary restraints. Citizens disposed also of other political rights such as the right to participate in political parties, the freedom of opinion and assembly etc. In that way citizens had the possibility not only to actively participate in state government by applying for the highest state offices or by electing freely their representatives but they also could exercise effective political control over state institutions.¹² The organization of the new independent Bulgarian state was based on the principles of separation of powers with a local self-government.¹³ One of the most distinctive feature of the first Constitution, which was also subject to the most ardent discussions in the process of its adoption, was the unicameral structure of the parliament.

The next Bulgarian Constitution of 1947 was adopted after a coup d'état having the aim of imposing a new form of government based on the soviet model. After a referendum Bulgaria was proclaimed a "people's republic with a representative government" where the sovereignty belonged to the people.¹⁴ Although the first socialist ideologies proclaimed equality of all regardless of their social state, the actual situation was quite different. Within a society "dominated by the working class" a new group of high-ranked members of the communist party emerged. They held the most prestigious state positions and disposed of various benefits not available to other citizens.¹⁵ The whole state power was concentrated in the governing communist party. The National Assembly formally had the prerogative to exercise political control over the executive but it was actually

¹⁰ Jacobsohn, G. J., "Constitutional Values and Principles" in Rosenfeld, M. and Sajó, A., "The Oxford Handbook of Comparative Constitutional Law", Oxford University Press, 2012, p. 6-7 of the article

¹¹ Belov, op.cit. 1, p. 94

¹² Bliznashki, G., "The Constitution - Nature, Functions and Supremacy", St. Kliment Ohridski Univeristy Publisher, 2018, p. 221

¹³ Ibid., p. 220

¹⁴ Ibid., p. 172

¹⁵ Mihailova, E "The Constitution of the People's Republic of Bulgaria from 1947", NBU University journal, issue 20, 2017,

<https://universitetskidnevnik.nbu.bg/%D0%B4%D0%B8%D0%BC%D0%B8%D1%82%D1%80%D0%BE%D0%B2%D1%81%D0%BA%D0%B0%D1%82%D0%B0-%D0%BA%D0%BE%D0%BD%D1%81%D1%82%D0%B8%D1%82%D1%83%D1%86%D0%B8%D1%8F-1947-%D0%B3/>

responsible before the governing bodies of the party.¹⁶ Private property was quite limited, political pluralism and freedom of opinion – suspended.

The Constitution from 1971 was adopted in order to reaffirm the supremacy of the communist party in Bulgaria. It did not introduce any significant changes in the regulation of the state and society. It contained strong ideological propaganda by explicitly stating that the state and the communist party had become one whole entity. A State Council was established. It acquired significant legislative powers and practically acted as a substitute to the National Assembly.¹⁷

The political changes after the 10.11.1989 marked the restoration of democratic and liberal constitutional tradition in Bulgaria. The last Constitution from 1991 reiterated the principle of national sovereignty where the political will of the people is expressed by a unicameral parliament and a Constitutional court. A system of separated powers, which exercise mutual control through a variety of checks and balances, was introduced. The preamble of the Constitution set out the goal of establishing a democratic, social state based on the rule of law. Political pluralism became a fundamental principle in contrast to the former totalitarian cult to the governing party.¹⁸

The Constitution from 1991 was adopted in a period of transition and as such had to provide for a stable democratic model that could withstand future political tensions. Therefore, it introduced a balanced political model which reconciled the opposing views presented in the context of the discussions prior to its adoption. It should be kept in mind however that the Constitution was not conceived as a “Constitution of a transitional period” but as a liberal Basic law aiming to set the foundations of a modern democratic state. In order to achieve this it drew on the latest trends in constitutionalism but also tried to reconcile them with national tradition and specifics.

Some of the traditional elements which conditioned Bulgarian constitutional development up until its modern state will be analyzed below.¹⁹

ELEMENTS OF CONSTITUTIONAL TRADITION

The republican form of government was introduced in Bulgaria for the first time in the beginning of the 1990s. During the rest of its constitutional history Bulgaria has been either a monarchy or a communist republic. The latter political regime was totalitarian with little respect for democracy, political accountability and human rights. Therefore, it would be unreasonable to speak of a longstanding republican tradition in Bulgaria.

Nevertheless, there is not a strong monarchist tradition either. This is due to the country’s particular historic and constitutional development. In Bulgaria there is no traditional aristocracy, a privileged class which draws its supremacy from noble birth. As historians point out, the ottoman invaders eliminated most of the aristocracy right after the instauration of their power on the Balkans. Besides, the century long foreign domination levelled the differences in society and contributed to its relative homogeneity.

It is true that during the national movement in the XVIII century a new class emerged in Bulgarian lands - rich merchants who traded across the Ottoman Empire and Europe. They accumulated sufficient resources to be able to afford a luxurious lifestyle and often maintained friendly relations with the governors. However, the division between the different classes in Bulgarian society was not that harsh since they were all more or less considered as unprivileged and subordinate to the governing ethos in the Empire. Besides, high social position was not conditioned by noble titles but it was rather the product of one’s own work and accomplishments although usually associated with close ties with the Ottomans and a detachment from the revolutionary zeal.

¹⁶ Stoychev, S., “Constitutional Law”, 5th edition, Ciela, 2002, p. 134

¹⁷ Drumeva, E. “Constitutional Law”, 5th edition, Ciela, 2018, p. 175

¹⁸ Ibid., p. 177-178

¹⁹ Some of these distinct features of Bulgarian mentality and constitutional structure were, among others, proposed by Belov, M., op. cit. 1, p. 164-173

The relative homogeneity of Bulgarian society and its egalitarian views created a rather specific attitude towards the monarchy. Although after the liberation Bulgaria was proclaimed a Principality as the only possible solution for a newly formed state in Europe of the XIXth century, the constitutional model was conceived primarily as a form of leadership aimed at future “unification of the nation, torn apart by the Treaty of Berlin”. In other words the Monarch was conceived much more as a leader to unification than as a founder of a dynasty or ruler by divine right.

For instance, the Tarnovo Constitution provided for vast prerogatives of the unicameral parliament in order to strengthen the role of the people in the government and to limit the powers of the monarch. It also guaranteed equality by providing for a universal suffrage right with no electoral qualifications and a universal right to free education. In addition, the monopoly of the Grand National assembly over the amendment of the Tarnovo Constitution is a manifestation of the principle of national sovereignty which, as a part of all four Bulgarian Constitutions, might also be qualified as traditional.²⁰

Concerning the unicameral structure of the parliament, it has been subject to ardent discussions in the dawn of Bulgarian constitutionalism. Although the establishment of a second chamber consisting of an educated and experienced elite seemed reasonable in the end of the XIX century, the unicameral legislature has been chosen as most adequate for Bulgarian society. Although the second chamber in unitary states is a balancing instrument²¹ and could add some expert guidance to the legislative process it was considered unacceptable for Bulgarian egalitarian tradition. Thus, the attributes traditional for Bulgarian mentality were decisive in the elaboration of the national parliamentary model. Since unicameralism has turned into a tradition one might conclude that those attributes have marked the whole constitutional development of Bulgarian parliamentary government.

In addition, an important argument in favour of the adequacy of a unicameral parliament is the fact that there has never been a federalist tradition in Bulgaria. Apart from the relatively small territory and population of Bulgaria, the unitary state structure is perceived as a guarantee for the political integrity of a nation who has fought for centuries in order to live independently on a territory in the “periphery of Europe where the clash of civilizations is not an abstract metaphor but a political routine”²². A federal structure was considered inadequate to the tradition of a nation which felt that its territory did not encompass its true historical, ethnic and moral borders.

So egalitarianism and relative social homogeneity as traditional values have become the basis for the particular Bulgarian constitutional regulation and have defined its basic traits. The universal suffrage right (reserved to men), the unicameral legislature and the unitary state structure as a projection of those values have become stable characteristics of the Bulgarian constitutional model which have remained unchanged all through its evolution.

In addition, the long-standing egalitarian tradition in Bulgarian society has an influence on its general attitude towards cultural, ethnic and religious differences. In the course of centuries Bulgarians have shared their territory with people of different ethnicity, culture and religion which along with their sense of equality has formed a particular tolerability to differences. This particularity of Bulgarian mentality has marked constitutional evolution. The Tarnovo Constitution proclaims tolerance as one of its founding principles. This constitutional tradition is resumed by the Constitution from 1991 which puts tolerance among its main goals stated in the Preamble. An illustration of this principle as part of Bulgarian constitutional tradition is the historic exploit of the whole Bulgarian society and the Bulgarian Orthodox Church who united around the cause of the salvation of Bulgarian Jews during World War II although Bulgaria was allied to Germany. It was an act of opposition of all diverse segments of society and state against an outrageous and inhumane

²⁰ Belov, M., op. cit. 1, p. 165

²¹ Drumeva, op.cit. 16, p. 342

²² Bliznashki, op. cit. 7, p. 234

policy. This is not the only act of tolerance of Bulgarians who willingly accepted and integrated the Armenian refugees in 1915.

Also notable is the opposition of Bulgarians to the policy adopted by the communist party in the mid-80s aimed at the forced assimilation of the Turkish minority known as “the revival process”. In particular, the protection of human rights including those of the repressed Turkish minority were part of the ideology of the dissident groups, which were formed in the context of the Perestroika such as the Independent Association of Human Rights’ Defense, the Independent Trade Union Podkrepa etc. In 1989, many people suffering from the so called “revival process” joined the Independent Human Rights Society in order to claim their rights²³. The wave of social discontent towards discrimination played an important part for the start of the anti-communist movement in the late 80s. The end of the communist government was generally marked by an urge for democracy and human rights protection and not by extreme nationalism.

The specific attitude towards the monarchy it can be traced up until modern times in the particular constitutional regulation of the presidential figure. Traditionally, the directly elected head of state is seen as a substitute of the monarch in republican states. As such he embodies the unity of the state and has prerogatives in all three separated state powers²⁴. The presidential institution introduced by the Constitution of 1991 i.e. a directly elected president who practically does not have executive prerogatives was first introduced in Ireland and Finland and has turned to be the preferred model for most of the countries of Central and Eastern Europe. It fits well into the constitutional tradition of Bulgaria which was marked by certain skepticism to the monarchic institute.

The Bulgarian president has a limited role within the particular national constitutional model. His functions are mainly related to the balancing of the three branches of power by trying to prevent hasty and ill-founded political decisions.²⁵ The scope of his prerogatives, however, does not allow him to participate fully and on an equal basis with the other political actors in the decision making process.

A tool to exercise some form of control over the legislature is the power of the president to seize the Constitutional court in case of unconstitutionality of laws. He is also entitled to appoint ¼ of the members of the Constitutional court. However, he does not dispose of the right to legislative initiative except for the amendment of the Constitution and his veto can be overcome with an absolute majority of the Parliament.

The president is also involved in the activity of the executive. However, some of his powers might be exercised only by proposal of the Council of ministers such as the appointment of the chiefs of diplomatic missions or the endorsement of changes in the boundaries and the capitals of the territorial units.

He launches the procedure of the formation of the government but his intervention is in most cases that of mediation, as distinct from the decisive role of the Parliament. It should be kept in mind, however, that the president has the power to intervene when after three attempts no agreement can be reached on the formation of the government. He is empowered to appoint an interim government, to dissolve the Parliament and to schedule elections (art. 99(5) of the Constitution). Thus, the president becomes the leading political actor in times of crisis and is entrusted with the task to maintain the balance of powers in the complex political situation.

In the area of competence of the judiciary the president also has few possibilities to intervene. He appoints and releases of duty the Presidents of the Supreme Court of Cassation, of the

²³ Philip Dimitrov, “Revisiting the Beginning of the Bulgarian Transition 25 years after the First UDF Government”, American Research Center in Sofia, 2016, p. 6; 14-16

²⁴ Drumeva, op. cit. 16, p. 425, 426

²⁵ Monova, Ts., “Constitutional status of the president of the Republic of Bulgaria”, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKewjH1b3lvP_jAhUO0qYKHQkBC7UQFjAAegQIARAC&url=https%3A%2F%2Fflaw.nbu.bg%2Fdownload%2Fflaw-jurnal%2Fstatii3%2Fflaw-journal1-2011-4.pdf&usg=AOvVaw26eC2CBSu1LVFRKazMXBb3

Supreme Administrative Court, and the Prosecutor General on a motion by the Plenum of the Supreme Judicial Council. The President may not refuse to decree any such appointment or release upon a second motion. He is also empowered to exercise the right to pardon.

The rest of his prerogatives such as the power to promulgate laws, to schedule elections, to appoint members of state bodies, to act as representative of the state in international relations, to command the armed forces etc. only confirm the concept of his moderate balancing role²⁶.

The limited powers of the president seem to fit into Bulgarian constitutional tradition marked by the leading idea of reinforcing the prerogatives of the parliament as a nationwide representative body. It is the Tarnovo Constitution that first sought to establish a strong parliament disposing of sufficient mechanisms to oppose to the monarch. In modern times the Bulgarian president seen as an incarnation of some of the functions of the monarch in the republican state is a representative figure with little participation in decision making. The particular role of the president also fits well into the tradition of division of power and the capacity of institutions to effectively challenge each other through a system of checks and balances.

It is also worth noting that the parliamentary form of government was chosen by the drafters of the Constitution from 1991 as the most adequate for a country transitioning from socialism to democracy. The establishment of a presidential republic in a country with an unstable democratic tradition such as Bulgaria risks of turning into an authoritarian regime masked behind a democratic facade.²⁷

CONSTITUTIONAL TRADITIONS AND EVOLUTION

The Constitution as an act governing the fundamental relations in a society, should dispose of stability ensuring the integrity of the particular national constitutional model. However, the stability of the Basic law must be reconciled with the necessity to be up-to-date with the constant evolution of societal values. In that respect, the Constitution of 1991 draws a distinction between norms which represent the core of the Constitution, the fundamental matters which enjoy the highest degree of stability and the rest of the constitutional norms whose amendment is rendered relatively easier. Article 158 read in conjunction with Art. 155 of the Supreme Law draws a distinction between rules which can be amended by the Ordinary National Assembly under a special procedure requiring high qualified majorities and a “Constitutional core” of essential norms whose amendment falls within the competence of the Grand National Assembly. The Grand National Assembly consists of 400 members (while the Ordinary Assembly counts 240) and has the exclusive prerogative to adopt a new Constitution, to rule on any changes of the territory of the Republic of Bulgaria and ratify any international instrument envisaging such a change, to rule on any changes of the state structure or form of government, to amend the rules governing the direct applicability of the Constitution, the legal force of international treaties and the possibility to circumvent fundamental rights (Art. 158). All other constitutional norms can be amended by the Ordinary National Assembly following a special more complicated procedure.

This guarantees sufficient stability of constitutional rules especially those governing the most substantial elements necessary for the proper functioning of the state and its relations with citizens. At the same time the fact that the parliament has the power to resolve issues of constitutional order facilitates their adaptation to changing social realities.

In order to delimit the scope of the prerogatives of the Grand National Assembly to adopt changes in the form of government the Constitutional Court was seized with a request for interpretation of this term. (Judgment № 3 from 10.04.2003 on const. case № 22/2002). The Court decided that the form of government should be interpreted broadly. “Therefore the form of government is determined not only by the character of the state as a parliamentary or presidential republic or a monarchy. It also incorporates the whole constitutional system of higher state

²⁶ Drumeva, E., op.cit. 16, p. 425

²⁷ Bliznashki, G., op.cit. 7, p. 255

institutions - the National Assembly, the President and Vice President, the Council of Ministers, the Constitutional Court and the bodies of the judiciary, their existence, their place in the state hierarchy, the organization, the conditions, the way they are formed and their mandate. The form of government also includes the activities and powers assigned to these bodies by the Constitution, insofar as their change might affect the institutional balance with respect to the basic principles on which state sovereignty is built, the supremacy of the basic law, political pluralism, the separation of powers, the rule of law and the independence of the judiciary.”

The practical implications of this judgment are substantial since it hampers the amendment of a vast array of constitutional norms regulating the relations between the highest state authorities by the Ordinary national assembly. Bulgarian constitutional experience shows that beside the burdensome procedure to convene the Grand National assembly there is little political will to turn to this widely representative body having full discretion over the Constitution. Therefore, the broad interpretation of the form of government is a means to strengthen the rigidity of the Constitution. Some scholars argue that the monopoly of the Grand National assembly over the interaction between the highest state authorities is an impediment to the judicial reform of Bulgaria and generally to the improvement of the political situation.²⁸

However, the pursuit of a more rigid Constitution might be associated with the wish to preserve the recently restored democratic values and the fear of upsetting the frail institutional balance. Having in mind that our tradition relates to instability, violation of the Constitution and absence of democracy, the wish to strengthen the stability of the Supreme Law seems reasonable even though it might stand in the way evolution. As the Court points out “the supreme institutions established by it [the Constitution], the place, formation and structure of their bodies, as well as the basic powers conferred on them and their balance, are the basis of the state and should not be susceptible to amendment in the easily changing political and parliamentary environment in a period of transition”.

In addition, the rigidity of the Constitution can be seen as traditional for Bulgaria. Although the Tarnovo Constitution did not contain any unamendable provisions it can be qualified as rigid since it could be amended only by the Grand National Assembly. Under this procedure it was amended twice – in 1893 and in 1911. Its rigidity, however, might be among the reasons for it to be suspended on several occasions – between 1881-1883 by Prince Aleksander Batenberg, in 1923 and in 1934.²⁹

The Constitutional court underlines in judgment 3/2003 that the norms which fall within the competence of the Grand National Assembly are only those which determine the particular place and role of the highest state authorities in the Bulgarian constitutional model and their mutual interaction. All subsidiary characteristics of these bodies which do not affect the institutional balance and the fundamental principles of the Constitution can be subject of amendment by the Ordinary National Assembly.

In that respect, the judgment is in line with the concept of the constituent power which must stand outside of the system of state bodies and ensure a wide representation of the interests of the people. The Ordinary national assembly, although a nationwide representative legislative body, is one of the main actors on the political scene and as such cannot be considered as fully impartial in regulating the structure and functioning of the constitutional system it is part of. Therefore, limiting its prerogatives to amend the Constitution can be justified on grounds of stability and balance of the Constitutional order.

²⁸ Open Society Institute, Citizens convent for changes in the Constitution “Is the Bulgarian Constitutional Court Model Successful?”, 04.10.2005, p. 15-20; http://www.osf.bg/cyeds/downloads/Transcript_04_October_2005.pdf

²⁹ Drumeva, op. cit. 16, p. 171.

PRACTICAL APPLICATION OF NATIONAL CONSTITUTIONAL TRADITIONS

Constitutional tradition is an important point of reference of the Bulgarian Constitutional Court when dealing with national cases concerning the interpretation of the Constitution or the assessment of the constitutionality of laws. Tradition is used as a valuable interpretative source as it reflects “the evolution of community values and illustrates the common belief system”.³⁰ Therefore, the court relies on tradition in its practice in order to interpret the principle of separation of powers³¹, to reiterate the constitutional duty of the Bulgarian state to support art and culture,³², to protect national minorities³³, to stress the obligatory character of the oath of the Members of the Parliament³⁴, to comment on the power of the parliament to give amnesty³⁵ etc. The analysis of the cited jurisprudence shows that the Constitutional Court relies on constitutional tradition mainly in order to give a supplementary authoritative power to its judgments based on written legislation. Thus, tradition is not “envisioned as an opportunity to enlarge the universe of protected freedoms by supplementing enumerated rights with rights that have developed over time, through traditional recognition”³⁶ but is rather a supplement which strengthens the court’s argumentation and gives the judgment legitimacy and stability. Tradition in Bulgarian constitutional jurisprudence is not by itself an argument justifying derogation from existing legislation but a point of reference in the interpretation of the Constitutional provisions.

EUROPEAN RELEVANCE

The European Union is neither a federal state nor a classic international organization. It reunites states which have agreed to transfer some of their prerogatives to the Union as a supranational body and to be subject to sanctions in case of violation of the duties stemming from this particular legal order. However, Member States preserve their sovereignty. This is illustrated by the principle of conferral³⁷ and their guaranteed monopoly over essential state functions such as ensuring the territorial integrity of the State, maintaining law and order and safeguarding national security (Art. 4, para. 2 TEU). As a Union of sovereign states it does not aim to obliterate the identity of each one but to ensure cooperation on a level playing field. This is the idea behind the obligation of the Union to respect national identities of Member States, “inherent in their fundamental structures, political and constitutional, inclusive of regional and local self-government” (Art. 4, para. 2 TEU).

The CJEU has assumed the responsibility of applying this provision and takes national identity into consideration when assessing the legality of EU measures. Thus, national identity might serve as a ground for derogation from certain legal obligations of Member States derived from Union legislation in cases where the latter impinges upon this protected area³⁸. This means that while generally EU law has primacy over national law the core principles and values which form national constitutional identity are capable of limiting its scope of action.

Although the Bulgarian Constitutional court relied on constitutional tradition and identity in order to prevent the ratification of the Istanbul convention³⁹ Bulgaria has not yet had the occasion to

³⁰Brown, R.L., “Tradition and Insight”, *The Yale Law Journal*, Vol. 103, No. 1 (Oct., 1993), pp. 177-222, p. 181

³¹ Judgment № 6 from 22.04.1993 on const. case №4 from 1993

³² Judgment № 1 from 31.03.2011 on const. case №22 from 2010

³³ Judgment № 2 from 11.02.1998 on const. case №15 from 1997

³⁴ Judgment № 1 from 16.01.1992 on const. case №18 from 1991

³⁵ Judgment № 1 from 19.01.2010 on const. case №14 from 2009

³⁶ Brown, R.L., *op.cit.* 29, p. 201

³⁷ Under this fundamental principle of EU law, laid down in Article 5 of the Treaty on European Union, the EU acts only within the limits of the competences that EU countries have conferred upon it in the Treaties. These competences are defined in Articles 2–6 of the Treaty on the Functioning of the EU. Competences not conferred on the EU by the Treaties thus remain with EU countries.

³⁸ Judgment of 22.12.2010 *Ilonka Sayn-Wittgenstein*, C-208/09, paras. 81-95; Judgment of 14.10.2004 *Omega*, C-36/02, paras. 23-41

³⁹ Judgement № 13 of 27.07.2018 on const. case № 3/2018

invoke its constitutional identity in the context of its obligations deriving from EU law. However, as has been illustrated above some constitutional values, principles and institutional arrangements enjoy a specific interpretation in Bulgaria. As was confirmed by the CJEU in its landmark judgments *Omega* and *Sayn-Wittgenstein* it is not excluded that due to religious, historic and cultural considerations a Member State might choose to interpret and protect a fundamental right or a legitimate interest in a different manner than others.⁴⁰ Such a particular interpretation inevitably has its manifestation in national legislation whose validity as opposed to the primacy of EU law might depend on the reliance on constitutional identity. This is an illustration of the importance of national constitutions and their interpretation for the way national and EU law interact. Therefore, an assessment of national identity should be integrated in the legal analysis of the competent national bodies in the context of the application of EU law.

In addition, national constitutional traditions are an important interpretative source in EU jurisprudence which derives from them the general principles respected by the Union. It was the CJEU that first turned to Member States' legal traditions in order to fill the legislative gaps in EU law by relying on the common legal principles inherent in any community based on the rule of law. With the Treaty of Maastricht they were officially recognized as a source of primary EU law enjoying the highest legal value.⁴¹

Since the general legal principles are the basis of the system of EU law one might conclude that national constitutional tradition from which they are derived is also a constituent element of the EU legal order. The Union itself was built on the basis of the fundamental categories of national constitutional traditions. Therefore, the understanding of national constitutional traditions is of particular importance for the application of EU law.

Some scholars see a relation between the obligation of the European Union to respect the constitutional identity of Member States and the strong reliance of the EU legal order on the general principles common to Member States' constitutional traditions:

"...constitutional identity does not include all norms, all principles contained in the Constitution, but only the essential ones..."

*The essential constitutional principles are part of the constitutional identity of the EU itself, part of the "constitutional core" of the EU, its primary law. And a Union legal act can only be valid if it does not contradict the Union constitutional corpus, i.e. it cannot contradict the basic constitutional principles of the Member States!"*⁴²

It is true that constitutional identity is based on the essential principles and values inherent in a given political community. However, EU jurisprudence often turns to constitutional identity as a manifestation either of the adherence to particular national concepts which are absent in other

⁴⁰ Judgment of 22.12.2010 *Ilonka Sayn-Wittgenstein*, C-208/09, para. 91; Judgment of 14.10.2004 *Omega*, C-36/02, paras. 37, 38

⁴¹Currently Art. 6, para. 3 TEU. For an analysis of the jurisprudence of the ECJ and the EU legislation referring to constitutional traditions and constitutional identity of Member States see: Mouton, J.-D., "Revaluation of the correlation between the Constitutional law of the EU and the Constitutional law of the MS? (A New Development in the Concept of Union Citizenship in the case law of the Court of Justice)" in Semov, A., Lectures of the International Master's Program Law of the European Union, Sofia University, Volume III Fundamental Rights and Non Discrimination, p. 168-244; available at: http://www.eubg.eu/upload/files/26514622_%D0%9B%D0%B5%D0%BA%D1%86%D0%B8%D0%B8%20%D0%BF%D0%BE%20%D0%9F%D1%80%D0%B0%D0%B2%D0%BE%20%D0%BD%D0%B0%20%D0%95%D0%A1%20-%D0%D1%82%D0%BE%D0%BC%20%D0%86%D0%86%D0%86%20-%D0%D0%9E%D1%81%D0%BD%D0%BE%D0%B2%D0%BD%D0%B8%20%D0%BF%D1%80%D0%B0%D0%B2%D0%B0%20%D0%B8%20%D0%BD%D0%B5%D0%B4%D0%B8%D1%81%D0%BA%D1%80%D0%B8%D0%BC%D0%B8%D0%BD%D0%B0%D1%86%D0%B8%D1%8F.pdf

⁴² Mouton, *ibid.*, p. 235

Member States⁴³ or of the specific interpretation of a common legal principle which might differ from the one adopted by other states.⁴⁴ I.e. constitutional identity describes what is particular and specific, sometimes even unique for national legal systems. The same understanding of the scope of constitutional identity was presented earlier in this article.

On the other hand, when the Court relies on the general legal principles common to Member States' constitutional traditions it seeks to establish the interpretation adopted by all or most Member States or at least the one against which there is little or no opposition. The Court aims to establish the principles on which a sufficient degree of consensus is reached between Member States in order to rely on them as a primary source of EU law. Consequently, the general principles of EU law include those which enjoy a sufficiently unified interpretation in Member States.

Therefore, the methodology of assessment of national identity substantially differs from the way the CJEU analyses the constitutional traditions of Member States in order to derive their common elements. However, the obligation of the Union to respect national identity stated in art. 4, para. 2 TEU might be seen as a part of the constitutional core of the EU just like the general principles common to Member States. The genesis of this obligation can be sought into the essence of the European Union which is a community based on 28 national legal systems which does not only aim to acquire what is common between them but also integrates and respects their unique traits.

CONCLUSION

Tradition is a bridge between the past and the present. It is the result of past assessments and decisions which have proven to be resistant to political and social changes and have reached modern times. Constitutional tradition is a manifestation of every nation's struggle to achieve a sound and just political government and designates the evolution of the ideas and concrete arrangements taken in the course of the realization of this goal. Bulgarian constitutional tradition is inevitably a reflection of the country's turbulent history. It is marked by revolutionary ideas, liberal and democratic aspirations but also by oppressive regimes. It was argued in this article that the values and principles inherent in Bulgarian mentality have transcended different constitutional regimes in order to reach full constitutional recognition in newest times. Thus, the last Bulgarian Constitution acts as a vital link between these traditional concepts and the most progressive constitutional arrangements of its time. Like previous Constitutions, it attempts to reconcile foreign ideas with national specifics in order to achieve the most adequate regulation. The Constitution of 1991 sets the foundations of a new democratic tradition which although quite recent has been willingly accepted and applied in a stable manner.

Constitutional tradition is not only an interpretative source in national jurisprudence but it has also become an inseparable part of the European legal order and as such a valuable tool for Member States when substantial state interests are at stake. With the membership of Bulgaria in the European Union Bulgarian democratic tradition, although quite recent, has been integrated into the European legal order. Although the development of EU law cannot be qualified as tradition *strictu sensu* it reunites the common traditions of its Members and enriches them with its autonomous concepts and objectives. This unique legal order influences national tradition by transforming and enriching it. On the basis of these mutually dependent and mutually reinforcing traditions national identity emerges as a protected area of national sovereignty which cannot be impinged upon.

⁴³ Judgment of 12 September 2006 Kingdom of Spain v United Kingdom of Great Britain and Northern Ireland; C-145/04 – On the rules in United Kingdom allowing to citizens of the Commonwealth to vote in elections, including European ones

⁴⁴ Judgment of 22.12.2010, Ilonka Sayn-Wittgenstein, C-208/09 – on the republican tradition in Austria in relation to the abolition of noble titles; Judgment of 14.10.2004 Omega, C-36/02 – on the particular interpretation of human dignity in Germany; Judgment of 5.03.2009 Uteca C-222/07 – on the special protection of linguistic diversity in Spain.

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Judgment of 22.12.2010 Ilonka Sayn-Wittgenstein, C-208/09, paras. 81-95;

Judgment of 14.10.2004 Omega, C-36/02, paras. 23-41

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CONSTITUTIONAL MOMENT OR FAILURE: CONSTITUTIONAL POLITICS IN BULGARIA 2020

Atanas Slavov¹, PhD, Sofia University, Bulgaria

Abstract

Constitutional politics in Bulgaria is rather transient and unpredictable process. Constitutional changes very often follow not established principles and standards, but the logic of political expediency of the moment. Upholding the independence of the judiciary in the context of declining rule of law and democratic standards is a challenging matter. After 30 years of democratic experience, Bulgaria has not completed key institutional reforms in the judicial branch. Constitutional amendments are again on the political agenda concerning the structural division of the Supreme Judicial Council that will ensure independence of the judiciary, and the need of accountability and effective procedure of dismissal of the over-powerful Prosecutor General. How to mobilize political and public support for the amendments implementing established European standards remains a crucial task for the Bulgarian political elite and the civil society to work out.

Key words: *constitutional politics, the rule of law, judicial reforms, accountability of the prosecution, European standards, civic engagement and mobilization.*

INTRODUCTION

Bulgaria 2020 would be remembered by country's civic awakening after years of growing authoritarian tendencies and lethargy on the side of civil society. Mass civic-political mobilization that sparked in July and lasted four months demanded not only resignation of the Prime-minister, the Parliament and the Prosecutor General, but, more profoundly, change in the principles and rules of the way governmental power is exercised and in the way institutions relate to the citizens. This, shortly put, requires change in the fundamental law and the social contract – the Constitution.

In constitutional theory, such historical moments of public mobilization, raising expectations and demands for fundamental political and institutional change, are known as “constitutional moments”.² These moments, in turn, are exemplary of exercising constitutional politics, not ordinary politics.³ In Ackerman's theory constitutional moments are defined with several characteristics: significant civic and political mobilization in support of constitutional change; period for mobilized public deliberation of more specific constitutional proposals; supporters of the change gain substantive popular support in the political arena, which is transformed in concrete constitutional amendments, legislative policies and constitutional case-law doctrines.⁴

¹ Atanas Slavov, PhD (University of Glasgow), PhD Constitutional Law (Sofia University) is an associate professor of Public Law and Constitutional Government at Sofia University St. Kliment Ohridsky (Bulgaria). His research interests cover constitutional law and theory, civic participation and direct democracy, law and religion, Europeanization of SEE societies. Practicing attorney-at-law and legal advisor in the NGO sector. Former adviser on constitutional matters to the Deputy Prime-minister and Minister of Justice (2014-2015) and the Deputy Prime-minister and Minister of the Interior (2016), constitutional expert at the Council of Legislation Directorate at the Ministry of Justice.

² Bruce Ackerman, *We the People: Foundations* (Cambridge, MA: Belknap Press, 1991)

³ Bruce Ackerman, “Constitutional Politics/ Constitutional Law”, *The Yale Law Journal*, Vol. 99, Number 3, December 1989, 453-546

⁴ Ackerman, *We the People*, 48-49, 266-68, 272-90.

This study will examine whether constitutional debates which formally started in December 2019 after critically assessed election and appointment of the new Prosecutor General, and continued during intensified civic mobilization in 2020, and fueled by the attempt on behalf of the government majority to propose a new constitution, constitute a genuine constitutional moment or should be conceived as only stages of short-term political maneuvering. These debates and initiatives are nonetheless form of constitutional politics.⁵

INSTITUTIONAL CONTEXT

More than a decade after the EU accession, constitutional democracy in Bulgaria remains defective⁶ and semi-consolidated⁷. Almost three decades after the fall of the Berlin Wall, Bulgarian democracy is weakened by rather heavy post-communist legacy (preserved parallel power networks of former communist secret services and their oligarchic off-shoots), but also due to persistent and systematic actions to impede, curb or dismantle the functioning of democratic or independent institutions that keep government and politicians accountable.⁸ This state of public affairs is most visible as regards the lack of proper independence of the judiciary, as well as reported inefficiency in combating high-level corruption.⁹

According to the 2020 Rule of Law Index with its overall score (0.55) Bulgaria is at the bottom among the EU member states (together with Hungary), and ranks globally 53rd (among 128 studied countries). It is noteworthy that in a regional perspective this result is closer to Hungary (60th), North Macedonia (57th), Kosovo (54th), or even to non-European countries like Tunisia and Mongolia (56th and 57th respectively).¹⁰

Comparative study on the justice systems in the EU indicates that Bulgarian judiciary suffers from very low levels of public trust, problems with independence and weak accountability mechanisms.¹¹ The state of play of judicial reforms remains rather incomplete with many deficiencies compared to accepted European standards. The situation is not improved significantly, notwithstanding specific monitoring mechanism in the fields of judicial reform, corruption and organized developed by the European Commission (the CVM) and the new Rule of Law Report.¹²

There are two key remaining issues: how to balance judges' professionalism and impartiality with the need of public accountability in governing the judicial system; and how to implement a trustworthy accountability mechanism regarding the Prosecutor General (PG) in cases he/she violates the law.¹³ These two issues are at the core of the unfinished constitutional reform of the judiciary and the public prosecution system that have to be completed in line with the existing European standards. In more specific terms, they relate to the composition of the judicial chamber of the Supreme Judicial Council (SJC) that should be composed of *majority of judges elected by their peers*, and the need to introduce real accountability mechanism for the Prosecutor General, who sits at the top of the overcentralized Public Prosecution Office. In 2017, the Venice

⁵ Anna Fruhstorfer, Michael Hein (Eds.), *Constitutional Politics in Central and Eastern Europe. From Post-Socialist Transition to the Reform of Political Systems* (Springer, 2016), 145-171.

⁶ Wolfgang Merkel, "Embedded and Defective Democracies" (2004) 11 *Democratization* 5, 33-58

⁷ Nations in Transit 2020. Dropping the Democratic Façade: https://freedomhouse.org/sites/default/files/2020-04/05062020_FH_NIT2020_vfinal.pdf (visited 1.12.2020)

⁸ Venelin I. Ganey, *Preying on the State: The Transformation of Bulgaria after 1989* (Ithaca, NY: Cornell University Press, 2007), 123-150.

⁹ Report from the Commission to the European Parliament and the Council on Progress in Bulgaria under the Cooperation and Verification Mechanism, COM(2019) 498 final: https://ec.europa.eu/info/sites/info/files/progress-report-bulgaria-2019-com-2019-498_en.pdf (visited 1.12.2020)

¹⁰ WJP Rule of Law Index 2020: <https://www.worldjusticeproject.org/rule-of-law-index/country/Bulgaria> (visited 1.12.2020)

¹¹ The 2020 EU Justice Scoreboard: https://ec.europa.eu/info/sites/info/files/justice_scoreboard_2020_en.pdf

¹² 2020 Rule of Law Report, Country Chapter on the rule of law situation in Bulgaria, SWD(2020) 301 final: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0301&from=EN>

¹³ ECtHR case: [Kolevi v. Bulgaria](#), no. 1108/02, §§ 195-215

Commission noted that “it is unclear who may hold the PG accountable” as well as that “this paradox” was previously indicated by the Parliamentary Assembly of the Council of Europe.¹⁴ Since 2016 no significant reforms were undertaken in the Public Prosecution Office, most specifically with respect to the role, functions and accountability of the Prosecutor General, as recommended by the EU Structural Reform Support Service (SRSS), published in December 2016. The SRSS report, pointed out the inefficient mechanisms for the Prosecutor General institutional and personal accountability, ongoing problems with some types of investigations (money laundering, high-level corruption, organized crimes), and systematic non-compliance with the standards developed in the case-law of the European Court of Human Rights (ECtHR).¹⁵ In the Parliamentary Assembly Resolution 2188 (2017), specific concerns are highlighted concerning the rule of law and “tendencies to limit the independence of the judiciary though attempts to politicise the judicial councils and the courts” as well as emphasized that “corruption, which is a major challenge to the rule of law, remains a widespread phenomenon” in the country.¹⁶ The Assembly also calls Bulgarian authorities to “continue the reform of the Supreme Judicial Council, the judiciary and the prosecution service in line with Council of Europe recommendations”, thus, pointing out that the expected reforms are not completed and the current state of the Bulgarian judiciary is yet to achieve full compliance with the European standards (including the latest opinions of the Venice Commission).¹⁷

HIGHLIGHTS ON STRUCTURAL DEFICIENCIES IN THE SJC

After the 2015 constitutional changes, the SJC was divided into two professional chambers – judicial and prosecutorial. The chambers are composed of parliamentary and professional quotas, plus the *ex officio* members. The Judicial Chamber is comprised of 14 members: the President of the Supreme Court of Cassation and the President of the Supreme Administrative Court, six members elected by the judges in direct voting procedure, and six members elected by the National Assembly. The Prosecutorial Chamber is comprised of 11 members: the PG is *ex officio* member, four members elected by the prosecutors, one representative for the investigators, and five members elected by the parliament. Both chambers compose a plenum of the SJC of 25 members, which is responsible for the election of the presidents of the supreme courts and the PG. In contradiction to the established standards, the politically elected quota of members dominates the professional one – judges elected by judges are in a minority in the SJC plenary (6 out of 25 members) and in the Judicial Chamber as well (6 out of 14 members). During the 2015 constitutional amendment process this ratio of professional versus parliamentary quota was one of the most debated issues. With judges remaining a minority in both the plenum and the chamber, independence of the judiciary could hardly be fully protected and key appointments will continue to raise doubts of politicization.

As it was pointed out, this structure of the SJC fails to meet established European standards on the administration of judicial councils.¹⁸ In the administration of the judicial system the independency and neutrality of judges would be safeguarded only if members of the Council (or judicial chamber)

¹⁴ Venice Commission, *Opinion No 855 /2017 on the Judicial System Act*, CDL-AD(2017)018,6 and 7 October 2017

¹⁵ Executive Summary of the Final Report, European Structural Reform Support Service, December 2016, <http://www.mjs.bg/Files/Executive%20Summary%20Final%20Report%20BG%2015122016.pdf>

¹⁶ Resolution 2188 (2017)1 of the Parliamentary Assembly of the Council of Europe, Committee on Legal Affairs and Human Rights, “New threats to the rule of law in Council of Europe member States: selected examples,” October 11, 2017:

<http://assembly.coe.int/nw/xml/XRef/Xref-XML2HTML-en.asp?fileid=24214&lang=en>

¹⁷ *Opinion No 855 /2017 on the Judicial System Act*, adopted by the Venice Commission during its 112th plenary session, 6 and 7 October 2017, CDL-AD(2017)018

Opinion N° 816 / 2015 on the Draft Act to amend and supplement the Constitution (in the field of the judiciary) of the Republic of Bulgaria, adopted by the Venice Commission at its 104th Plenary Session (Venice, 23-24 October 2015), CDL-AD(2015)022

¹⁸ Venice Commission, *Opinion No. 403 / 2006 on Judicial Appointments*, CDL-AD(2007)028

are in majority *judges directly elected by their peers*, while the parliamentary quota remains a minority. One of the required steps to reform the Council (the judicial chamber) is indeed increasing the proportion of judges elected by their colleagues, in order to become a majority of its members. Another advised step is to provide for election of the two presidents of the supreme courts by the judicial chamber, not by the plenum.¹⁹

SIGNS OF POLITICIZATION IN THE SJC

On October 24, 2019, the SJC elected the new PG, after formally public, though not entirely transparent, procedure. The election procedure triggered public discontent and demonstrations, due to raising doubts regarding the professional qualities and integrity of the nominee (the Deputy Prosecutor General at the time – Ivan Geshev). Key civic demands, voiced during demonstrations, were focused on the needed reform of the judiciary and especially on ensuring real accountability of the PG. He was nominated unanimously by the Prosecutorial Chamber of the SJC, chaired by the incumbent PG (Sotir Tsatsarov), and supported by the majority of the Council's members (20 votes out of 25). Public information on the alleged close connections between the nominee and the ruling elite (including the prime-minister, but also well-known oligarchs) circulated.

Responding to the public expectations and public demonstrations demanding a presidential veto on the procedure, the President Radev refused to sign the decree for his appointment. The President emphasized that such key election process should be trusted by the wider public, not raising doubts and tensions in the civil society or in the professional legal communities (of judges, lawyers, academia). On November 14th, 2019, the SJC plenary voted again to elect the nominee, thus disregarding the presidential veto. In accordance with the constitutional requirements, the President had to issue a decree for the appointment (Art. 129, para. 2 of the Constitution).

A similar process revealing signs of politicization, unfolded with the selection of the President of the Supreme Administrative Court in 2017. It was the first time the President vetoed the SJC decision, but nonetheless, had to appoint the elected candidate after second voting in the newly convened SJC plenary.

Similarities in both election procedures are related to the close ties with the governing elites, oligarchic networks, and questions concerning the professional qualities and personal integrity of the candidates. These procedures fueled again the on-going debate on how to respond to public expectations of professionalism and integrity of the nominees with selection procedures that involve some degrees of politicization. This proper balance is yet to be achieved.

THE OVER-POWERFUL STATUS OF THE PG AND ABSENCE OF ACCOUNTABILITY

Constitutional status of the PG and his authority to exercise supervision of legality and methodological guidance over the activity of all prosecutors (Art. 126, para. 2 of the Constitution) is one of the key issues needing in-depth reform. In fact, the PG is placed on top of the pyramid of power over the entire Prosecution Office - the system is over-centralized and hierarchical in structure. These features eliminate the possibility of effective accountability and investigation in cases of abuse of power. In the meanwhile, at the end of 2019, the Council of Ministers filed a request with the Constitutional Court for interpretation of this constitutional provision in order to clear the path for legislative reform regarding the accountability and investigation of the PG. In July 2020 the Court ruled that the PG shall not exercise supervision of legality and methodological guidance in cases which involve probes, investigations and other procedural activity directly related to the his status or actions.²⁰

Part of the problem is the historical and political legacy of the Prosecution Office used during the totalitarian regime as a politicized and repressive authority, implementing the ruling party decisions, while regularly bypassing the courts. Currently, it is the only constitutional office that lacks

¹⁹ Venice Commission, [Opinion No 816/2015](#) and [Opinion No 855/2017](#)

²⁰ Judgement No. 11/ 2020 in case No. 15/2019 of the Constitutional Court

adequate checks and balances corresponding to the levels of its centralization. Another dimension of the problem is the ongoing fusion of both formal and informal powers in the hands of the PG, with no working mechanisms of exercising public scrutiny and accountability.

In its 2019 opinion for Bulgaria related to proposed amendments of the Judicial System Act and Criminal Procedure Act, presented by the government in insufficient attempt to address recommendations, the Venice Commission again emphasized the *influence of the PG in the SJC* (his function as *ex officio* chair of the Prosecutorial Chamber), having a decisive role on the career and disciplinary proceedings of individual prosecutors and its strong position within the Prosecution Office.²¹ For regular prosecutors, PG is almost the ultimate decision-making authority in many cases which are not referred to the courts - he can repeal every individual act, can instruct and give mandatory orders to every single prosecutor. This institutional position makes it virtually impossible to provide real accountability, and more specifically, in cases of serious breach of public ethics and the law – to trigger effective investigation and dismissal procedure. For that reason, changes in the composition mechanism of the SJC – increasing the public (parliamentary) quota in the Prosecutorial Chamber, reducing the term of office of the PG (to 5 years instead of 7), as well as providing independent mechanism for investigation and dismissal from the SJC are the first possible steps to be taken. More ambitious constitutional reform may lead to creating a completely separate Prosecutorial Council, not headed by the PG, electing the PG by the parliament on proposal by the Minister of Justice or a group of MPs, and introducing a form of impeachment procedure through the parliament.

THE CONSTITUTIONAL INITIATIVE OF THE PRESIDENT AND TENSIONS WITH THE PG

Shortly after the appointment of the new PG the President announced the beginning of public consultations regarding possible constitutional amendments.²² As head of state with direct democratic legitimacy, he responded to popular expectations to initiate a debate on necessary constitutional reforms. Among the subjects discussed during consultations with representatives of the legal academia, professional and civic organizations were the structural model of the SJC, the constitutional model of the prosecution, introduction of a mechanism to hold PG accountable, including effective investigation and dismissal from office, and the possible introduction of individual constitutional complaint.

This constitutional discourse initiated by the President, and focused on the status and accountability of the PG, faced strong reaction on behalf of the newly appointed PG. In February 2020, the Prosecution Office published wiretapped conversations of the President, in order to imply that he was involved in criminal activity. This action, obviously sanctioned by the PG, violated the Constitution (as regards presidential immunity) and several special legislation provisions.²³ In the public debate that followed, the actions of the prosecution were sharply criticized. Implying wrongdoing by the President that may justify criminal investigation, the PG requested *in abstracto* interpretation of the Art. 103 of the Constitution, which provides for special presidential immunity against criminal investigation and regulate on possible grounds and stages of impeachment procedure. The Constitutional Court following the established doctrine ruled that the opportunity to initiate criminal investigation of the President while in office is very limited and such investigations should not interfere with the personal rights and freedoms and personal integrity.²⁴

²¹ Venice Commission, [Opinion No 968/2019 on draft amendments to the Criminal Procedure Act and the Judicial System Act concerning criminal investigations against top magistrates](#), CDL-AD(2019)031

²² Constitutional consultations initiated by the President, 17 December 2020: <https://www.president.bg/news5299/rumen-radev-debatat-za-neobhodimostta-ot-konstitutsionni-promeni-otgovarya-na-stremezha-za-varhovenstvo-na-zakona-realno-razdelenie-na-vlastite-i-dostoyno-badeshte-na-grazhdanite.html> (viewed 2.12.2020)

²³ Art. 32 and Art. 33 of the Special Intelligence Means Act.

²⁴ Judgement No. 12/2020 in case No. 1/2020 of the Constitutional Court.

Further tensions between the President and the PG sparked again in July 2020 when armed personnel of the security service of the PG entered the official seat of the President and its administration in order to execute arrest warrants against two of his senior advisors.²⁵ In the wider public context, this action followed public statement by the President calling for in-depth investigation of misconduct of the officers, serving in the National Service for Protection, who acted as private guards to Ahmed Dogan, honorary chairman of the Movement of Rights and Freedoms (DPS), who is conceived one of the most powerful politicians in Bulgaria linked to the oligarchic networks. The whole new political dynamics started after the attempt by Hristo Ivanov, political opposition leader (Da Bulgaria party) and former Minister of Justice, to step on a shoreline that has to be in public ownership and with public access, but was used as a private beach, shielded from the public in the Dogan's private estate in Rossenets.²⁶

GENUINE CONSTITUTIONAL MOMENT?

The last two events immediately provoked mass demonstrations of tens of thousands, unseen since 2013, calling for the government to resign, snap parliamentary elections, resignation of the incumbent PG, and major constitutional changes with regard to strengthening the independence of the judiciary and introducing accountability procedures and impeachment of the PG.²⁷ Demonstrations enjoyed high levels of public support – above 60 %, while government and the parliament faced sharp decline – in the range 10-15 %.²⁸

In the beginning of the protest wave, on July 13th, the first more systematic ideas of constitutional change were introduced by Democratic Bulgaria political coalition (founded by Da Bulgaria, DSB, and Green Movement political parties, forming key extra-parliamentarian opposition force).²⁹ More specifically, the proposals addressed the need of constitutional reform of the SJC and the accountability of the PG and were drafted in line with European standards (following closely the recommendations of the Venice Commission and the European Commission). Among the most significant changes publicly announced was the complete separation of the SJC in two councils – judicial and prosecutorial. The Judicial Council (15 members) consists of a majority of *judges elected by their peers* (8 members), parliamentary quota (5 members) elected among publicly known lawyers of high professional and moral integrity (among attorneys, professional organizations, academia, legal NGOs), and the presidents of the supreme courts as *ex officio* members (being themselves chosen among the sitting judges in the two courts). As regards the Prosecutorial Council (11 members) it was proposed that 4 members should be elected by the prosecutors, 5 - elected by the parliament (but belonging to different legal professions outside the prosecution service), and the PG and the Minister of Justice shall be members *ex officio*. In order to ensure real accountability of the PG it was proposed that he will be elected and impeached by three fifths majority in the parliament, while in the case of impeachment the final judgement will belong to the Constitutional Court. Complementary to these changes, is the proposal to reduce the PGs

²⁵ “Four Arrested in Two Investigations, Offices of President's Administration Searched”, BTA, 9 July 2020: <http://www.bta.bg/en/c/DF/id/2243259> (viewed 1.12.2020).

²⁶ „Bulgarian president's advisors arrested after raid on presidency”, *IntelliNews*, 9 July 2020: <https://www.intellinews.com/bulgarian-president-s-advisors-arrested-after-raid-on-presidency-187176/> (viewed 1.12.2020).

²⁷ Svetoslav Todorov, “Fresh Protest Wave Gains Momentum in Bulgaria”, 10 July 2020: <https://balkaninsight.com/2020/07/10/fresh-protest-wave-gains-momentum-in-bulgaria/> (viewed 1.12.2020).

“Anti-Government Protests Against Corruption Intensify Across Bulgaria”, *Radio Free Europe/Radio Liberty*, 13 July 2020: <https://www.rferl.org/a/antigovernment-protests-against-corruption-in-bulgaria/30724431.html> (viewed 1.12.2020).

²⁸ Alpha Research, “Continuing Support for Protests: July – September 2020”: <https://alpharesearch.bg/post/971-produljavashta-podkrepa-za-protestite-i-neiasen-izhod-ot-politicheskata-kriza.html> (viewed 2.12.2020).

²⁹ National Citizens' Initiative for Democratic Bulgaria: <https://demokrati.bg/natsionalna-grazhdanska-initsiativa-za-demokratichna-balgariya/> (viewed 2.12.2020).

constitutional term of office to 5 years, to limit the functions of the prosecution exclusively to the criminal investigation and procedure (no more supervision of legality) and to ensure judicial review of all acts of the prosecution related to the significant phases of the criminal investigation. Other proposed changes included introduction of individual constitutional complaint safeguarding the rights of the citizens, as well as the opportunity of the low instance courts to refer the case of constitutionality of applicable law directly to the Constitutional Court; introduction of legislative citizens' initiative on the proposal of 10 000 citizens; provisions on lustration of persons for belonging to the former communist secret service (only for the top offices in the systems of public order, national security, defense, the judiciary, independent regulators).

Another set of constitutional ideas was also announced. One of the civic organizations actively involved in organizing protests and known for its consistent demands of constitutional reform Justice for All Citizens Initiative also presented its views on constitutional reform. The most radical among them was the abolishing of the Prosecutor's General Office altogether. Other proposals included reducing the parliamentary quota in the SJC, abolishing the Prosecutorial Chamber, as well as abolishing the specialized criminal courts.³⁰

In the midst of intensified protests in early September 2020, the government majority announced that it will propose deep constitutional changes in addressing public demands. In fact, on 2nd September, the parliamentary majority coalition, presented to the public and in the National Assembly a draft for new constitution.³¹ The major constitutional reforms were proposed in the field of the judiciary: complete separation of administration of the judiciary and the prosecution by establishing two different councils – judicial and prosecutorial, on the basis of the basis of the existing chambers in the standing SJC; increase of the professional quota in the judicial council with one more member elected directly by judges; two presidents of the supreme courts to be elected and dismissed by the judicial council, while the prosecutorial council will elect and dismiss the PG; reducing the term of office of presidents of the supreme courts, and the Prosecutor General to five years, as well as eliminating the role of the President in their appointment and dismissal process; new reporting procedure for the PG before the parliament on a regular basis – every 6 months; reducing the functions of the Minister of Justice with respect to the career development and disciplinary proceedings of the magistrates. In fact, in the public debate that followed, it became obvious that proposed reforms did not meet the established European standards on the independence of the judiciary and did not introduce working mechanism of accountability and dismissal of the PG. The whole initiative was unmasked as having only political goals serving the ruling coalition to remain in power until the regular parliamentary elections in the spring of 2021. Thus, it was revealed, that even the constitutional issues and popular expectations and demands of deep political reforms, could be sacrificed for mere political expediency to remain in power few more months.

In September, the first Rule of Law Report focused on Bulgaria emphasized the need of reforming the organization of the SJC and introducing accountability to the PG in line with the European Commission (the CVM) and the Venice Commission recommendations and official commitments made by the Bulgarian authorities. The constitutional reform initiative of the ruling coalition is also briefly assessed: “It is important that any such reform should take account of the Council of Europe recommendations.”³²

In a special opinion delivered in late November, the Venice Commission very clearly stated that the proposed constitutional reforms did not meet European standards and requirements and the draft

³⁰ <https://pravosadiezvavseki.com/> (viewed 1.12.2020).

³¹ [https://www.venice.coe.int/webforms/documents/?pdf=CDL-REF\(2020\)070-e](https://www.venice.coe.int/webforms/documents/?pdf=CDL-REF(2020)070-e)

³² 2020 Rule of Law Report, Country Chapter on the rule of law situation in Bulgaria, SWD(2020) 301 final: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0301&from=EN>

constitution is not sufficient basis for such reforms.³³ Moreover, the overall process of drafting and exercising constitutional initiative has not been transparent, inclusive and deliberative, as required by the Council of Europe rule of law standards.³⁴

After the critical opinion received, the governing majority voted on the draft constitution on 25th November, but did not receive required majority to decide on convening the Grand National Assembly, a special constitutional convention required to pass new constitution (Art. 158 of the Constitution). This was rather expected result, since no parliamentary opposition party supported the constitutional initiative.

The unsuccessful vote formally closed the constitutional momentum for 2020. It should be noted, however, that formal parliamentary procedures, lacking popular legitimacy and approval of the majority of the population, could not close a genuine constitutional moment. When deep popular expectations for constitutional reforms remain present there is true constitutional moment that has to be addressed by the future parliament, enjoying higher levels of public trust and legitimacy.

CONCLUSION

Constitutional moments remain present, supported by the majority of the population, even when deliberate maneuvering of the Bulgarian institutions attempts at silencing or avoiding much debated constitutional decisions. Failing to implement specific recommendations concerning the structure of the SJC, enhancing independence of the judiciary, and the status of the PG, ensuring his accountability, Bulgarian authorities provoked civic and political discontent and mobilization in favor of even more radical constitutional reforms. It is deeply worrying that thirty years of democracy-building and Europeanization, Bulgarian governing political elites are still united in upholding their political influence in the judiciary and the Prosecution Office, being considered as a leverage for preserving and distributing the real power both in politics and the economy. Despite the tendencies of declining rule of law and democracy standards, Bulgarian society still has a chance to fix these problems combining civic engagement and mobilization, new political representation and effective external support and pressure. This constitutional moment is here to stay.

³³ Venice Commission, *Opinion No. 1002 / 2020: Urgent Interim Opinion on the Draft Constitution of Bulgaria*, CDL-PI(2020)016

³⁴ Venice Commission, *Rule of Law Checklist*, Study No. 711 / 2013, CDL-AD(2016)007

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THE EVOLUTION OF FIGHTING POVERTY AS AN INTERNATIONAL EFFORT¹

Krassen Stanchev,² Sofia University

Abstract

The 70 plus years of conceptual and institutional evolution of the fight against poverty as an international effort has had its philosophical, economic and institutional foundations, including UN log-rolling between East and West, North and South but resulted in the current policies to end poverty. This article offers a review this history and analyses the contemporary perspectives the efforts of the UN institutions and the World Bank Group to coordinate the reduction of poverty, and discusses the economic factors behind the success of the Millennium Development Goals (MDGs) to halve extreme poverty, revisiting the outcomes for different regions. The understanding of differences between regions helps outlining what worked and what could support the future fight of poverty. It also features the East European countries that in the period between 1990 and 2007 moved from central planning to market economy, some of them eventually becoming new members of the EU and already belong the group of high-income countries. Their case underpins the analyses of the current constellation of factors to fight poverty. Previous optimism of economists and statisticians is questioned through a critical analysis of the external assistance in poverty fighting strategies, the persistence of high extreme poverty shares in countries in Sub-Saharan Africa, by statistical indications of slower pace of poverty reduction in 2018-2019, and, finally, by the negative externalities of the Covid-19 pandemic and the sharp and deep economic slowdown globally. The paper end by an account of policy mixes that could speed up or at least keep the direction and the trend of the poverty reduction world-wide.

SOME ABBREVIATIONS

AfDF - African Development Fund

ADB - Asian Development Bank

ECOSOC or ESC – UN Economic and Social Council

HIPC - Highly Indebted Poor Countries

GA – General Assembly (of the UN)

GEP - Global Economic Prospects

GHSI - Global Health Security Index

¹ This article has become a foundation of further study, already co-authored with Prof. Vesselin Popovski on extreme poverty eradication after the COVID-19 pandemic, which is about to be published as a chapter 1 (“Extreme Poverty Eradication: Conceptual Evolution and Policy Challenges”) of Narinder Kakar, Nicholas Robinson and Vesselin Popovski (editors), Fulfilling the Sustainable Development Goals, by Taylor and Francis publishing house (Routledge).

I would like to thank Professors Kraker and Popovski for convincing me to undertake the research.

² Dr. Krassen Stanchev is an associate professor teaching Public Choice, Macroeconomic Analysis of Policies and history of economic ideas to humanitarian post-graduates at Sofia University), he is also Board Chairman, one of founders and former Director of the Institute for Market Economics (www.ime.bg), ex-MP and committee chairman of Bulgaria’s Constitutional Assembly (1990-1991). Since 2006, he worked in the countries of Western Balkans, Central Asia, the Caucasus, Ukraine, Russia and Egypt, leading teams and/or being a subcontractor of EU, UN, USAID or the World Bank programs. He is a honorary board member of Bulgarian Chamber of Commerce and Industry, a member of Mont Pelerin Society (www.mps.org), and of the Network for Constitutional Economics and Social Philosophy (NOUS: <http://nous.network/en/>).

IFIAC - International Financial Institutions Advisory Commission
JHU – John Hopkins University
LaDB - Latin American Development Bank
MDG - Millennium Development Goals
MDRI - Multilateral Debt Relief Initiative
MPI - Multidimensional Poverty Index
NIEO - New International Economic Order
OPHI - Oxford Poverty & Human Development Initiative
OWD - Our World in Data
PAL - Poverty Action Lab
PRGF - Poverty Reduction and Growth Facility
PRSP - Poverty Reduction Strategy Papers
SDG – Sustainable Development Goals
SSA - Sub-Saharan Africa
UDHR - Universal Declaration of Human Rights
UNHCR – UN High Commissioner for Refugees
WDL - WorldDataLab
WDR - World Development Report
WHO – World Health Organization

INSTEAD OF INTRODUCTION: 73 YEARS OF THEORETICAL EVOLUTION

From ancient Judea Jubilee tradition and bread and olive oil subsidies in the Roman and Byzantium empires to contemporary socialist and populist movements and welfare state of North America and the EU, the policy to help the poor has been a core part of the Real Politik. As an international policy, however, fighting poverty is a relatively new phenomenon.

If one rolls back the chain of historic events, the endeavors to formulate and attain the objective of limiting and even eliminating poverty, had emerged as an internationally recognized policy goal relatively recently.

The first mention of such policy is the Article 25 of the 1948 United Nations Universal Declaration of Human Rights (UDHR), adopted in 1948. It sets an abstract qualitative definition of everyone's "right to a standard of living adequate for the health and well-being of himself and of his family" and lists eleven types of welfares (from nutrition to widowhood and old age). The spirit of the Declaration was that signatories commit not to act in violation of these rights.

For about 40 years this context-inclusive approach to poverty reduction was similar to the understanding of economic development in general as "an extension of the range of choice..., an increase in the range of effective alternatives open to people". This is "both the core objective and the criterion of economic development", wrote out of experience in Malaysia and West Africa Peter Bauer in 1957.³

Since 1848, the reduction of poverty objective swung between two schools of thought, and in 2020, to some extent thanks to the CIVID-19, they tend to merge.

The first addressed wellbeing as positive externality from economic development and growth, in Bauer's sense. This approach was advanced further by Amartya Sen, the first economist to be awarded a Nobel Prize for studying the links between social choice and poverty. He titled one of his books "Development as Freedom". In 2015 Thomas Sowell argued that there is randomness of incomes, not a direct causality between individual and/or collective intentions and goals, and the eventual outcomes of economic and policy actions. According to him, the randomness of income depends on myriad of circumstances under nobody's control. The task

³ Peter T. Bauer, *Economic Analysis and Policy in Underdeveloped Countries*, Durham, N.C.: Duke University Press, 1957, p. 113.

is to explain “the things that created and sustained higher standards of living” (because the humanity begun its development in a state of poverty that lasted for a very long time).⁴ At the eve of the post-1800 exponential growth of prosperity Adam Smith viewed his mission as an inquiry into “nature and causes of the wealth of nations”. Thomas Sowell reminds us the fact that classic economic thinking focused on wealth creation for the obvious reason that poverty was so common and dire social phenomenon that normal people have no choice but striving to escape out of it.

The opposite approach was and is to understand poverty as a relatively separate phenomenon, theoretically distinguishable from other strolls of economic life, and therefore subject to a purposeful policy action to limit and manage it as a social phenomenon. The post WWII economic models described economic growth through levels of saving and investment (the productivity of capital). Under this explanation, the poverty should be theoretically dealt away by incentivizing savings and investment, debt relieves and other measures that help overcoming the “poverty trap” (i.e. low incomes prevent saving and thus investment). This approach helped monetization of policies and calculation of resources needed to lift of populations out of poverty, e.g. the calculation of the poverty gap – an abstract assessment of the resources to bring the extremely poor above the respective poverty line.

Policies, however, tend to induce complex, negative and positive externalities to other walks of social life. Their analysis by economists, statisticians and policy makers had reformed the policy agenda of fighting poverty. Some policy instruments, like government debt relief assisted by IMF and development banks, required redistribution of already produced income, and themselves did lead to unforeseen consequences, while many details of the real economic behaviors of the poor were left without attention.

These consequences were analyzed by economists like William Easterly and many others. The omissions were studied and explained by Abhijit V. Banerjee and Esther Duflo’s Poverty Action Lab (PAL) in 2003-2011. Their studies summarized in “Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty” (New York, Public Affairs, 2011) had won the authors, along with Michael Kremer, the Nobel Prize in Economic Sciences in 2019 “for their experimental approach to alleviating global poverty”.

The discussion between economists and politicians of both schools led to better understanding of economic wellbeing and poverty. In recent years a profound and practical understanding of poverty was provided by Nobel Prize in economics laureates, like Arrow, Sen, already mentioned Duflo, Banerjee and Kremer, Angus Deaton and others.

“WASHINGTON CONSENSUS” AS POVERTY ERADICATOR

The attention to quantitative policy objectives was raised by a UN document that was never implemented - the 1974 UN General Assembly’s Declaration on the Establishment of a New International Economic Order (NIEO). It recommended that “industrial countries” and other “donors” to UN institutions spend more on debt relief, support poorer countries’ industrial policy and relax existing rules of development and debt financing by the World Bank and IMF. The relief was required to be “in order and magnitude that is commensurate with the needs of the most affected” countries.⁵

⁴ Thomas Sowell, *Wealth, Poverty and Politics: An International Perspective*, New York, Basic Books, 2015, Chapter 1, chapter 13.

⁵ See: Programme of Action on the Establishment of a New International Economic Order. UN GA, May 1, 1974: <https://digitallibrary.un.org/record/218451?ln=en> . The spirit and the letter of this document was hardly acceptable: with an unclear rhetoric. it presumed responsibility of the “industrial nations” for the economic backwardness and called for an autarchy of developing nation in terms of natural resources, trade and economic institutions. In the next 10 years, IMF and the World Bank promoted the so called Washington Consensus that was accepted by most of the UN member states.

The detailed reading NEIO background documents leaves the impression of a political attempt to force developed countries to deliver a Blanc Check to governments that in fact restrict economic development (understood as in Bauer's terms as broadening the range of choices). The attempt then, in the 1970's, failed because "the donors" disagreed but eventually the redefinition of the missions and mandates of the World Bank and IMF in the new millennium had contributed to the internationalization of the policies to end extreme poverty.

Politics aside, the microeconomic rationale behind this language was obvious: high government debts require high taxes, thus reducing the residual income and savings of the population, therefore the relief would expectedly increase the amount of public resources available for development and of private opportunities to work, consume and save. With the time other measurable goals were formulated for many segments of the wellbeing such as poverty as an income per person, food safety, hunger, infant mortality, life expectancy, etc. The incorporation of these (longevity, literacy, and health) dimensions or consequences of poverty took place in 1980s, and the measure of poverty as "one dollar a day per person" was introduced with the 1990 World Development Report (WDR)⁶ and a measurable target to halve the proportion of people who live on this income by 2015.

Gradually, the poverty reduction objective as a cornerstone of international development policies than was modified by the MDGs in 2000 and by the SDGs in 2015. This process was aided by other politically unforeseen developments.

The 1990s coincided with the collapse of the Iron Curtain in Europe and the former socialist countries embarked on the path of market reforms. The most successful followed a policy mix that became known (and sometimes misunderstood) as "the Washington Consensus": fiscal discipline, streamlining taxes, liberalization of interest rates, prices, trade and investment, leveling the playground for domestic and foreign direct investment, securing the property rights (incl. privatization and bankruptcy), and deregulation. This was a reference to basic economic institutions that were restricted in indebted countries and destroyed by the system of central planning. The Consensus gave an extended formula of above-mentioned theory of wellbeing as a positive externality of economic growth.

The 1994 Human Development Report (HDR) promoted the idea that human rights should be guaranteed by an enhanced human security, in seven dimensions: economic, food, health, environmental, personal, community and political security. The "economic security" was thus statistically and politically linked to human development. The 1995 report of the UN World Summit for Social Development in Copenhagen expanded previous definitions of poverty, underlining that it "depends not only on income but also on access to services". It saw poverty as a social and policy problem along with unemployment and social exclusion, pointed at poverty as a "...deprivation of basic human needs" (food, safe drinking water, sanitation, health, shelter, education and information). It called for "stronger international cooperation and the support of international institutions to assist countries in their efforts to eradicate poverty and to provide basic social protection and services".⁷ The Summit declared 1996 a Year for the Eradication of Poverty.

Seeing poverty as a social problem was an important paradigm shift: the task henceforth was already to identify the most expedient policy mixes to deal with the problem. The

⁶ Ravi Kanbur and Lyn Squire, *The Evolution of Thinking about Poverty: Exploring the Interactions*, Gerald M. Meier and Joseph E. Stiglitz (editors), *Frontiers of Development Economics: The Future in Perspective*, World Bank, Washington D.C., 2001, p. 184-189. The authors explain that a) the measure leaves without quantitative assessment many important phenomena (differences of the cost of living between countries, non-markets transactions, intra family redistribution, etc.), and b) conclude that including complex measures does not have a principal impact on sets of policies to end poverty.

⁷ See Chapter 2 of the Report, especially page 41, and also paragraph 2, 6 and Commitment 2 of the Copenhagen Declaration.

understanding of poverty left the field of economics and human rights and became a norm in international policy initiatives, ensuing eventually the MDGs and SDGs.

1974 NIEO policy targets, 1994 HDR concept of development and 1995 Copenhagen Summit added new institutional dimensions to the Washington Consensus, such as: public and corporate governance, limiting corruption, and observation of international standards in trade, finance and central banking, existence of social safety nets as well as targeted poverty reduction policy. These institutional requirements sought a greater efficacy of international and domestic development policies.

The 1996 Highly Indebted Poor Countries (HIPC) initiative was instrumentalized by the IMF and World Bank. Besides criticism,⁸ the IMF 2020 HIPC's review found that progress in poverty and inequality reduction accelerated thanks to MDGs and SDG, and in particular thanks to the 2005 Multilateral Debt Relief Initiative (MDRI). The latter gave an option of 100% of eligible debts to be written off if benefitting countries adopted (with civic participation) own Poverty Reduction Strategy Papers (PRSP).

By 2015, when the MDRI was discontinued, the IMF and the World Bank had involved in the effort the African Development Fund (AfDF), Asian Development Bank (ADB) and Latin American Development Bank (IaDB), helping altogether 35 countries, most of them in Africa but also in Latin America and Asia.⁹ The MDRI was terminated in 2015.¹⁰

The 1997 WDR examined role of the state. It found too simplistic to assume that "good advisers and technical experts would formulate good policies, which good governments would then implement for the good of society". The president of the World Bank, James Wolferson, noted that "Building a more effective state to support sustainable development and the reduction of poverty will not be easy".¹¹ To supplement the role of the governments, a new institutional requirement was coined out: international organizations (and national governments) shall discuss, draft and implement development programs in cooperation with NGOs and other stakeholders. It was the independent analysis of government failures that motivated the introduction of the above mentioned PRSPs. A growing number of economists (David Dollar, Simeon Djankov, Miroslav Prokopijević, William Easterly, Peter Bauer – to name just a few) studied how development funding is allocated, and questioned both its efficacy and integrity. In order to overcome irregularities IMF designed new instrument and an attempt was undertaken to reformulate the missions of IMF and the World Bank.

The Poverty Reduction and Growth Facility (PRGF) of the IMF tasked "to make the objectives of poverty reduction and growth more central to lending operations in its poorest countries", operated from 1999 to 2009, and extended loans to 78 African and Asian countries (including four ex-USSR states)¹²

On the turn of the centuries, the US Congress commissioned a review of the Bretton Wood's institutions by the International Financial Institutions Advisory Commission (IFIAC), led by Prof. Allan H. Meltzer. Its core recommendation was that IMF should primarily focus on crisis prevention (crisis management, improved quality and increased quantity of public information, and macroeconomic advice to developing countries). Facilities like PRGF shall not deal with long-term lending, it is a competence of IBRD and other development banks: "If these banks did a better job, there would be no need for the PRGF", wrote Meltzer. The development banks' programs, IFIAC stated lack focus, are often loosely related, or

⁸ See, e.g.: Reducing Poverty: is the World Bank's strategy working? PANOS Institute Report No 45, London, Panos, 2002.

⁹ See: MDRI Factsheet, IMF, March 2016; the remaining funds were transferred to Catastrophe Containment and Relief Trust (thus, assisting achievements of other SDGs).

¹⁰ The remaining balance was transferred to Catastrophe Containment and Relief Trust, assisting other SDGs.

¹¹ WDR 1997: the State in a Changing World, Washington D.C., Oxford University Press, IBRD, 1997, pp. IV, 2.

¹² See: PRGF Factsheet, IMF, July 31, 2009.

unrelated, to their stated goals and, all too frequently fail to accomplish their objectives”. Meltzer explained: “All of the fault does not lie with the development banks, but they have not found ways around the obstacles that some governments create. And they continue to lend despite the obstacles and the resulting failures.”¹³

In this context it was logical that 2006 “Equity and Development” WDR analyzed the global poverty as a systemic economic phenomena that includes national, international and social dimensions of equality, interrelations between well-being and equity, property rights, investment, justice, regulatory fairness, and longevity.¹⁴

MDG: THE OPTIMISM OF THE LAST 15 YEARS

With the system of measuring poverty and the broad understanding of interconnected dimensions of living standards, by 2005 it has become obvious that 1990 goal to halve the extreme poverty by 2015 is to be accomplished. This became obvious not only to statistician and economists, but – thanks to them - for the public at large as well.

If one takes the adjusted (in 2015) extreme poverty measure of USD 1.9 per person per day, the dynamics was that in 1990 the population living in extreme poverty was 35.8% of the global population, which continued to grow, by 2005 the absolute number of extreme poor went down by 29.9%, or 20.7% of the global population. The table below demonstrates the development by 2015.

Population group	1990	2005	2015
Earth population	5.31 bln	6.52 bln	7.35 bln
Not in extreme poverty	3.41 bln	5.17 bln	6.62 bln
In extreme poverty	1.9 bln	1.35	0.733 bln

Source: World Bank, Our World in Data (OWD)

The overall target to halve the number of extreme poor was accomplished. The conclusion about MDG was that global agenda can make a difference, irrespectively the global recession of 2008-2009. In terms of poverty, it was upsetting that 1/5 still lives in poverty and hunger, with limited to no access to healthcare, medicine, clean water and other services, and also the situation with inequality between genders, household with different levels of income, urban and rural areas within countries and between countries, differences in environmental conditions between the poor and the rich. All these were affecting more radically the poor and those living in zones of conflict (which still rests as largest threat to human flourishing).

Excluding the most prosperous part of the globe and disregarding differences within county groups, the shares of population in extreme poverty (USD 1.9 per day) in 2005 was as follows:

- Sub-Saharan Africa – 50.7%;
- Fragile and conflict-affected situations – 44.7%;
- Low income countries – 33.3%;
- Low and Middle Income countries – 25%;
- Latin America and Caribbean – 9.9%;
- Europe and Central Asia – 4.9%;

¹³ For details, we recommend the Prof. Meltzer’s summary for the German IFO Institute: The Report IFIAC: Comments and Response to Critics, CESifo Forum 1 (4), 2000, pp.: 9 - 17: <https://www.cesifo.org/en/publikationen/2000/journal-complete-issue/cesifo-forum-4-2000>

¹⁴ See: WDR 2006, Equity and Development, Washington D.C., World Bank and Oxford University Press, 2005.

- Middle East and North Africa – 3%.¹⁵

This was the climate of ideas on the eve of 2012 UN Conference on Sustainable Development in Rio de Janeiro that formed the vision to “make sustainable development a reality for seven billion people today, and to define the future we want for nine billion by 2050”.

By then, the poverty gap, or the amount of money that would be theoretically needed to lift the incomes of all people in extreme poverty up to the international poverty line of USD 1.90 a day, were predicted to go down to USD 161 bln in 2013, from 280 bln in 2005. The global GDP in 2012 was estimated to be USD 71.2 trln, of which the Sub-Saharan Africa share was barely 3% while 96% belonged to non-challenged by extreme poverty regions. Theoretically, the cash needed to completely cover the poverty gap was 2.2 of 2012 global GDP.

Given the global circumstances and comparatively moderate global GDP decline of 2.9%¹⁶ during the 2008-2009 recession motivated the call to completely deal away with poverty and hunger. For the 2012 Rio Summit participants this would have been an inexcusable political mistake not to take the lead.

When strategizing the Millennium Promise Alliance (with the mission to end extreme poverty and hunger), Jeffrey Sachs (then UN director overseeing the work on the MDGs), fortified the end-of-poverty goal and stretched the list of sustainable development objectives. In his “The End of Poverty: Economic Possibilities for Our Time” (2005) he proposed an annual spending of 0.7% of developed nations GDP per annum would be sufficient to end poverty in 15 years. He encouraged debt reliefs for low income countries (the UN 2005 supported the above reviewed conduits to do so) and proposed immediate doubling (and then gradual increase to the level of above quoted poverty gap assessments) of the annual development aid programs. Similarly, the optimism was supported by the late Swedish statistician Hans Rosling, who by 2015 has become if not a households name, but a source of reference to political scientists from around the globe. His extrapolations made him a firm believer in ending poverty and as an advisor to WHO, UNHCR and a collaborator of UN Population Division he managed to make others belief this objective is attainable. “Do not Panic: How to End Poverty in 15 Years” (2015) was one of his last documentaries. In this, summarizing his previous projections,¹⁷ he closely linked poverty elevation to overcoming global demographic challenges.

Simultaneously with above-mentioned “Rethinking Poverty”, in 2010-2011 by Sabina Alkire and James Foster of the Oxford Poverty & Human Development Initiative (OPHI) proposed the Multidimensional Poverty Index (MPI).¹⁸ MPI links monetary (consumption) measures of poverty with ten human security indicators and HDRs and is correlate with other SDG-associated challenges.

THE EXTRAORDINARY SUCCESS OF THE POST-COMMUNIST COUNTRIES

It is well established that the population in extreme poverty declines globally mostly because China (since 1980s) and India (since 1990s) promoted basic economic reforms that lifted 1.5 billion individuals out of extreme poverty. The unleashed growth in the last ten years China

¹⁵ Source: OWD, Extreme Poverty. The figures account for differences in prices levels, and for inflation; all estimates are in international dollars using 2011 PPP conversion rates.

¹⁶ See: Ayhan Kose, Naotaka Sugawara, Understanding the depth of the 2020 global recession in 5 charts, World Bank Blog, June 15, 2020: <https://blogs.worldbank.org/opendata/understanding-depth-2020-global-recession-5-charts#>

¹⁷ See his Ted Talks, the portal GapMinder` (founded in 2005) and his post-mortem “Factfulness: Ten Reasons We’re Wrong about the World – and Why Things Are Better than You Think” (2018).

¹⁸ See their article “Counting and multidimensional poverty measurement”, Journal of Public Economics Volume 95, Issues 7–8, August 2011, pp.: 476-487. The Annual MPI is co-published by OPHI and UNDP since 2011.

reduced the number of extremely poor by 12-13 million per annum in China, India - by 2.7-2.8 million.¹⁹ China is very likely to end extreme poverty in 2021 or 2022. In 2020, its share of extremely poor is lower than that of the USA (1.6%).

The Washington Consensus, despite very different country experience, was the also the policy mix to bring down poverty in the Eastern Europe and ex-USSR.

In the last 15-20 years the share of populations in extreme poverty (USD 1.9 per day) often shrank more than 10 times in many countries.²⁰ Today only in Turkmenistan and Uzbekistan it is just above 4%, and in Georgia – just below 4%.

All other 27 countries have extreme poverty shares below 3%, in all new EU member states (except for Romania – 2%), ex-Yugoslav countries (except Macedonia – 3%) and in Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan. Moldova, Mongolia, Russia and Ukraine the extreme poverty headcount is below 1% of the population. In thirteen countries the extreme poverty is practically extinguished.

There are common economic policy denominators for ex-Communist countries:

- Definition, restoration and protection of private property rights;
- Liberalization of trade, investment and prices;
- No fancy industrial policies, kept public spending (most often) on track with revenues, streamlined and simplified taxes, adhered (with some exceptions) to sound monetary policies, and, except for the Eurasian Economic Union states and Ukraine, allowed for completion in bank ownership;
- Globalized, and integrated (politically and economically) with the EU and other centers of prosperity.

Similar policy mixes one can observe in China, or India, or countries as Indonesia, Ghana, and Ethiopia, where the progress in reduction of poverty is also remarkable.

Most Eastern European countries kept their former social safety nets unchanged, but rationalized them. Only the Republic of Georgia abolished state pension and healthcare funds, and Kazakhstan introduced a Chilean style pension reform.

This is the key difference between China and India (and other fast growing economies of East Asia) and Eastern European countries. Respectively, the government social spending differs substantially, labor markets are much freer in China and ex-USSR countries (respectively youth unemployment was and still is lower too).

What Eastern Europe countries spend on pensions, China spend on infrastructure. For the 2010-2015 period the average annual infrastructure investment here was 8.3% of GDP, twice more than Russia, and three time more than OECD and East European countries.²¹ (Government spending on education is roughly the same in India, China and Eastern Europe). 10-15 years ago it was widely believed (by ADB, ILO, UNDP, etc.) that such public investment would help reducing poverty. The statistics suggests that there is a correlation, but there are no detailed recent studies.

The economic growth rate of all post-Communist economies from mid-1990s to 2009 was 2.5-3 times higher than growth rates in the EU or North America, the global recession was often sharp but short-lived, then the pattern resumed in 2010-2011. Post-recession

¹⁹ The Poverty Clock of the Vienna based WorldDataLab (WDL) demonstrates this effect per minute and tracks the progress of other SDGs in real time, see: <https://worlddata.io/>.

²⁰ Measures are most often available through the World Bank for the years after 1995, none of the countries had a statistical measure for the period before 1989 in Eastern Europe and before 1991 in ex-USSR. For the current situating we use WDL estimates.

²¹ See: Annual average infrastructure expenditures as percent of GDP worldwide from 2010 to 2015, by country, Statista, August, 2019: <https://www.statista.com/statistics/566787/average-yearly-expenditure-on-economic-infrastructure-as-percent-of-gdp-worldwide-by-country/>.

employment rates in Eastern Europe are at highest historic levels, wages grew relatively fast. However, the East European growth rates even for the boom period before 2008 were around 6% of GDP, were far below China and India growth in those years.

The poverty reduction progress in individual ex-Communist countries was as remarkable as in China: OWD statistics reveals that the share of population in extreme poverty in Kyrgyzstan, Moldova, Georgia and Kazakhstan 20 years ago was respectively 42.1, 38.5, 19.4 and 10.3 percent; now – 1 or below 1%, in Georgia – 3% at the beginning of 2020.

There is one regularity evident from the experience of ex-Communist countries: the faster economies liberalize the faster the economic growth and poverty reduction.²²

This is also evident in Bulgaria. In 1995 the share of the population in extreme poverty was 5.5%, by March 1997 it grew to 36-37%, most hardly affecting rural areas (about 47%), senior citizens and minorities (Roma – more than 80%, ethnic Turks – 45%).²³

The country was developing in the first half of the 1990's in parallel with Central European states. The trend was turned down by the 1995 government decision to support loss-making state-owned enterprises. This led to a banking crisis,²⁴ hyperinflation (from April 1996 to March 1997 it was the highest in the world, ranking 17th highest inflation in the history of the 20th century); from April to December 1996 real industrial wages were going down by 19% a month; in January 1997 the average monthly wage was USD 40, the pension – 20; in February USD 20 and 5; savings evaporated, from 52% of GDP in the end of 1995 to 6% in March 1997.

The economic crisis was resolved by stopping the printing press, reforming the central bank into a currency board, and, in a sense, returning the original Washington Concusses – “growth is good for the poor”.²⁵ The next poverty assessment found that by the end of 2001 the share of the population in extreme poverty shrank almost by 2/3, to 12.8%. “The improvement can be attributed to growth and the economic recovery, which has lifted the consumption levels of many households”, pointed out the report. “Despite the declining poverty rates, many Bulgarians feel that their living standards have not improved dramatically. Qualitative surveys suggest that nearly three-quarters of the population believe that they live in poverty.”²⁶

By 2017, the extreme poverty in Bulgaria have been gradually reduced to 1.3% and the multidimensional poverty measure was 1.7% of the population. Before the COVID-19 pandemic hit the country, the extreme poverty was already 1%. The shock of 1996-1997, however, had a long lasting stigma for the country – it is most often named in the press “the poorest EU country”, and about 30% of the Bulgarians are convinced they live in poverty.

The trend of (non-extreme) poverty reduction was reversed in some countries even before COVID-19 recession, irrespectively of their economic potential. The case in point is Russia: its national poverty rate is USD 3.20 a day (at 2011 international prices); in 2012 the share of the population under this threshold was 10.7%, in 2019 – more than 14% and this year –

²² This was one of the key IMF findings in the 2014

Regional Economic Issues Special Report on the “25 Years of Transition Post-Communist Europe and the IMF”, authored by James Roaf, Ruben Atoyán, Bikas Joshi, Krzysztof Krogulski IMF staff on the occasion of the anniversary of fall of the Berlin Wall.

²³ See: Bulgaria: Poverty during the Transition, World Bank, 1999, pp.: ii-v.

²⁴ In 1996 Bulgaria registered the most costly banking crisis in the transition – 42% of GDP. Other countries had similar experiences: Macedonia – 30% of GDP (due to a Greek blockade), Czech Republic – 25% of GDP in 1998 (newly privatized firms stopped repaying credits), and Kyrgyzstan (18% of GDP) and Kazakhstan (10% of GDP) in effect to the 1998 Russia government debt crisis. (See: Helena Tang, Edda Zoli and Irina Klytchnikova, Banking Crises in Transition Countries: Fiscal Costs and Related Issues, World Bank, 2001, p. 35.

²⁵ An article with such a title, by World Bank economists David Dollar and Aart Kraay received both an approval and criticism when it was published in the “Journal of Economic Growth” (vol. 7, pp.: 195-225, 2002)

²⁶ Bulgaria Poverty Assessment, World Bank, October 2002, pp.: 18-19.

above 15%. For the sake of comparison: Bulgaria national poverty line is USD 5.50 a day, in 2017 7.5% of the population lived under this line.²⁷

PROGRESS AND POST COVID-19 PROSPECTS OF POVERTY REDUCTION

As Duflo and Benerjee predicted in *Poor Economics* (2011), relying on general economic growth (the old Washington Consensus) for poverty reduction, turned out to be a low hanging fruit.

In 2019 UN projected that the global poverty line will go down to 8.2% of the Earth's population. But the pace of the pace of progress had slowed down and by 2030 forecast was 6%.²⁸ The explanation: not only the last margins are rather complex to address line in China and Eastern Europe, but lack of social protection and insurance against natural disasters especially visible in disparities between low-middle and low-income countries and the rest of the world, the UN report found.

If in the 1990s the extreme poverty was most visible in East and South Asia, now it is concentrated in to Sub-Saharan Africa. The share of Sub-Saharan poor did not change between 2000 and 2015, it event grew after 2015 while other regions almost reach the point of ending extreme poverty.

World Bank forecasts is that in 2030 almost 90% of the world poorest will live in Sub-Saharan Africa, if the last decade pattern of economic growth is sustained.

The COVID-19 swept away even half-optimistic forecasts. The World Bank updated poverty projections for 2020 two times since the outbreak of the pandemic.

Latest projections, based on 2020 global economic growth assumptions,²⁹ is that the number of those living in poverty will increase by 71 to 100 million people. These are unexpected "new poor", they will move the poverty rate to higher than previously predicted 2020 level. This scenario may well prove optimistic: 2020 multidimensional poverty line for currently most poor countries is 22%, as MPI states: this fact will negatively affect the progress in poverty elevation in 70 developing countries, bringing them back to the conditions of 2015 or even 2010. 81 million of the new poor could appear in Sub-Saharan Africa and South Asia, Europe and North America unaffected.

COVID-19 recession hits more countries than any other recession in the last 150 years – 93% of the countries in the world. The only precedent is the Great Depression, with 84% of the world in 1931. Historic reconstruction of the GDP dynamics suggests that all past recessions were less sharp and deep, and that underdeveloped regions suffered relatively modest declines of GDP.

"What began as a health crisis has quickly become the worst human and economic crisis in a lifetime", found the July 2020 session of the UN's Economic and Social Council (ESC). In contrast to past losses of output due to pandemics, COVID-19 impact on developed economies would shrink times more output than reconstructed previous GDP declines in effect of the Spanish Flu (4.8%), the Asian Influenza (2% of GDP in 1957) or Hong Kong Flu (1967-1969 – 0.7%).³⁰ In July 2020, the European Commission estimated a 13.1% reduction in the Union's EU GDP in 2020, decline in consumption and investment of 14.9% and 16.7%. The poorest EU regions and households were most severely hit by lockdowns. EUROSTAT reported that on annual basis the Eurozone GDP contracted by 12.1%, that of the EU – by

²⁷ See historic statistics at MacroTrends: <https://www.macrotrends.net/countries/BGR/bulgaria/poverty-rate>.

²⁸ UN, *The Sustainable Development Goals Report 2019*, New York, 2019, p. 22.

²⁹ Daniel Gerson Mahler, Christoph Laknerr, R. Andres Castaneda Aguilar, and Haoyu Wu, Updated estimates of the impact of COVID-19 on global poverty, World Bank blog, June 8, 2020: <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty> . See for details in *Global Economic Prospects (GEP)*, World Bank, June 2020, chapter 1.

³⁰ See: Andrew Burns, Dominique van der Mensbrugge, Hans Timmer, *Evaluating the Economic Consequences of Avian Influenza*, World Bank, 2009.

11.9%. The unprecedented economic slowdown in richer parts of the world will negatively affect the not so rich and the poorest regions.

Past recessions most often occurred for pure economic reasons: someone did not want or had no money to buy something. 2020 recession results from restrictions imposed on the human and physical factors of the economy. If the restrictions persist, the global economy could plunge even deeper, warned the June report on GEP. For now the baseline forecast is 5.2% contraction in global GDP in 2020,

Lockdown policies depend on the perception of the threat, the inevitably limited knowledge about the virus, and the country capacity to cope with the pandemic. All these factors are subject to change as one speaks about them. UN, World Bank Group, OECD, EU and regional and national institutions have updated their assessment of the situations at least three times since January.

According to June GEP, it found that East Asia and Pacific, after a GDP decline of almost 8% since the beginning of the year, is expected to rebound by the year end. Sub-Saharan Africa and South Asia, the regions of “old” and highest risk of “new” poor, would likely shrink by 2.8 and 2.7% of GDP respectively. Eastern Europe and ex-USSR - by 4.7%, the EU countries – by more than 6% of GDP. Middle East and North Africa economies look a bit worse - an average GDP decline of 6.2%. Latin America and Caribbean GDP forecast is – 7.2% decline.³¹

Like in previous pandemics, the poorer countries were less affected economically. The situation may change, however. E.g. no 2020 GDP decline was expected in India, but mid-October statistics shows contraction of different sectors from between 9.2 (healthcare) to 23.1% (automotive industry).³² These economies are expected to rebound in 2021. Sub-Saharan Africa (where the largest economies of Nigeria and South Africa were the hardest hit by the pandemic and contracting economic activity) is forecasted to register second highest regional GDP growth in the world in 2021 (of 3.1%). South Asia will, perhaps, grow modestly, because the largest economy of India is expected to decline by 3.2% in 2021.

From historic pandemics we know that they are socially “unbiased”, killed princes and paupers, emperors and beggars with equal lack of mercy. The COVID-19 statistics so far paints a similar picture.

2019 Global Health Security Index (GHSI), a month before the outbreak of COVID-19 ranked “Best Prepared to Deal with a Pandemic” - USA, UK, the Netherlands were at the top. Poorer East European countries were far behind but still among the top 60 of 195 GHSI countries. Nevertheless, the ex-Communist countries registered times less (typically around 10 per every 100,000 citizens) COVID-19 deaths compared to the “best” countries in the first 7 months. Only Russia is an exception. There is a correlation between low number of deaths and historic specificities of these countries: unreformed healthcare, high number of hospital beds per 100 thousand residents, long history of mass vaccinations, and high percentage of out-of-pocket payments, population density and distanced life styles.³³ Except for Nigeria and South Africa, Sub-Saharan countries have as low rates of COVID-19 deaths as Eastern Europe.

By December 2020, the seemingly common COVID-19 advantages of Eastern Europe had completely vanished, except, for now, for Slovakia and Georgia.

³¹ All reference to GDP statistics is from GEP, World Bank, June 2020: <https://www.worldbank.org/en/publication/global-economic-prospects>

³² Estimated impact from the coronavirus (COVID-19) on India in 2020, Statista, 18 October 2020: <https://www.statista.com/statistics/1111641/india-estimated-economic-impact-of-coronavirus-by-market/>.

³³ See details: Krassen Stanchev, IV. Health Security, Marcin Zaborowski (editor), Human Security in Central Europe, Visegrad Insight, August 2020, pp: 34-43.

Some of these correlations are obviously valid for economically disadvantaged and poverty distressed countries and regions. JHU COVID-19 data base shows that confirmed infections (concentrated in five countries) are four times more in Europe than in Africa (which has four times larger population). One should also note other important factors.

The African population is younger than that of the EU or North America.

And as a continent Africa is the fastest growing economy of the world in the last five years and had registered decent growth rates since 1990.

These are likely to help Africa in catching up on living standards in the decays to come.

Still however, the immediate future of poverty reduction remains at risk of deterioration due to the combined impact of the pandemic and the legacy of underdevelopment and missing safety nets.

The July the ESC report to the High Level Political Forum of UN summarized the following legacies and risks ahead of SDG1,³⁴

- The poorest and the most vulnerable segments of global population (women, children, senior citizens, persons with disabilities, migrants and refugees and informal sector workers, are being affected disproportionately by the pandemic;
- 71 mln. such people are pushed back to extreme poverty in 2020; the 2020 and 2021 forecasts of extreme poor were downgraded to 8.8 and 8.7% of the population (from 7.7 and 7.4 respectively);
- “Vulnerable countries (least developed and land-locked developing countries, small islands and countries in humanitarian or fragile situations) “stand to be hit the hardest in the long term owing to the fragility of their health systems” and due to the “limited coverage of their social protection systems, limited financial and other resources, vulnerability to external shocks and excessive dependence on international trade”;
- If before the pandemic, “the share of the world’s workers living in extreme poverty fell, from 14.3 to 8.3 to 7.1 per cent in 2010, 2015 and 2019, respectively”, while progress “was less encouraging for young workers: in 2019, 12.8 per cent of the world’s young workers lived in extreme poverty, compared with only 6 per cent of all adult workers”;
- No change since 2016 was reported: 55% of the world’s population (4 billion) do not benefit people from any form of social protection;
- And “hurricanes, floods, earthquakes, wildfires and other extreme natural disasters exacerbate poverty: in 2018 “39 million persons were reported as affected, 29 million of whom saw their livelihood disrupted or destroyed”.³⁵

POST-COVID-19: THE POLICY MIX THAT MAY WORK

COVID-19 situation is likely to bring about a synthesis of the recommendations of the two school of thought about poverty, described here. This also includes the ESC conclusion that “the above-mentioned data underscore the need for international solidarity and cooperation more than ever”.

The good news shall be that even if the extreme poverty levels deteriorate, it is hardly possible that SDG1 targets are back to the levels of before 2010. This expectation is justified

³⁴ All references below from: Progress towards the Sustainable Development Goals

Report of the Secretary-General, New York, UN, July 2020: <https://undocs.org/en/E/2020/57> or The Sustainable Development Goals Report 2020, New York, UN, pp.: 24-26.

³⁵ The report give the following example about the differences between regions: “half of unemployed people in Australia and New Zealand receive unemployment payments, and 44% in Europe and Northern America. In contrast, just 3 per cent of the unemployed in sub-Saharan Africa and 12%in Latin America and the Caribbean receive such payments.”

by the fact that extreme poverty is concentrated in particular regions of the world, which have the potential to restore and sustain higher (although still catching up) levels of economic growth than the rest of the world.

However, the main challenge again is finding the policy mix that does not hamper economic growth. World Bank's GEP recommends a massive but targeted government spending, and praises countries that seem able to mobilize resources for recovery up to 10% of GDP or more. "Targeted" means expenditures that support and allow for economic freedom and innovation, productivity driven growth, smart energy solutions, infrastructure and education spending with predictable if not inevitable positive externalities."

The latest, end of October 2020 data on COVID-19 shows the speed the virus spread around the world accelerated but demonstrated again that this is first of all the situation in advanced economies while in emerging markets and developing economies the pace is more than three times slower and in Sub-Saharan Africa and East Asia Pacific regions is three times slower than in the economies of Eastern Europe and Central Asia.³⁶

Benerjee and Duflo wrote that "low hanging fruits" in poverty reduction are no longer available. This is true for positive externalities from economic growth first of all. In a sense we are back to the challenge to "inquire into the nature and causes of the wealth of nations". The institutional requirement for good public governance and integrity remain even more valid than before COVID-19.

The problem here is two-fold. The pandemic blocked the human and physical factors of the economy, the government response everywhere is to peddle up the spending and monetary side of the economy. Irrespectively how one defines "targeted" spending policies, higher government expenditures to GDP entail risk of misrule and corruption. The entire criticism of foreign aid is not only still valid but reinforced. Easterly wrote that "foreign aid has on average probably no effect on long-run growth"³⁷. He echoed Sen's trust in democracy as a universal value, stating that "we need to convince many more that all people everywhere – women and men, black and white, rich and poor – deserve to be free at last."

Benerjee, Duflo and Kramer's experimental approach to poverty elevation is reiterated. The personal understanding of and motivation for wellbeing is not a standard cost benefit analysis. This is a well-established fact that values we assign to things are totally subjective and there is no objective accounting for individual preferences. Angus Deaton won a Nobel Prize 2015 for his "analysis of consumption, poverty, and welfare". With setbacks, this approach to ending poverty is practical, localized and involving the endeavors of the poor themselves and is likely to make a difference again.

³⁶ World Bank Group, Global Monthly, October 2020: <http://pubdocs.worldbank.org/en/639561603819307073/Global-Monthly-Oct20.pdf>. See also: Rate of COVID-19 cases in the most impacted countries worldwide as of October 28, 2020 (per million population): <https://www.statista.com/statistics/1174594/covid19-case-rate-select-countries-worldwide/> and Number of novel coronavirus (COVID-19) confirmed cases and deaths as of October 27, 2020, by region: <https://www.statista.com/statistics/1101373/novel-coronavirus-2019ncov-mortality-and-cases-worldwide-by-region/>

³⁷ William Easterly, Economics of International Development, London, IEA, 2016, p. 16.

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PANDEMIC GOVERNANCE

Re-Thinking Rules and Institutions in Post Pandemic World

Vesselin Popovski¹, Jindal Global Law School

Abstract

From time immemorial the epidemics affected the fate of states and their powers both short-term and long-term. How do leaders approach contagious diseases and protect people is a crucial test of governance: a tyranny can become emboldened during pandemics, increase its central power and control and make people obedient in fear of mass death; but also a democracy can dramatically fail addressing the emergency, letting many people die, and/or lock down businesses and produce long-term negative economic consequences. This article lists five tests that COVID presented, discusses whether democratic states did better, or worse, during the pandemic, and whether female leaders did better than male leaders. It argues that key factors to assess pandemic governance are competence and willingness to listen to scientists, quick and flexible decision-making, capacity and effectiveness of the bureaucratic machinery, and solid trust in the citizenry.

HISTORICAL VOYAGE

The Antonine Plague (165-180 AD) hit severely the Roman Empire. A high death toll (60-70 million) reduced the number of taxpayers, army recruits, businessmen, farmers. The increasing expenses and needs for the military could not be paid because of revenue decline, less production, fewer farmers, a lot of uncultivated land. Scarcity of crops caused steep price increase. Fewer craftsmen and shortage of workforce led to higher wages for survivors. Less merchants, traders and financiers caused profound economic disruptions and these, together with weakened army, contributed long-term to the decline of the Roman Empire.

The Justinian Plague (541-542 CE) weakened the Byzantine Empire militarily and economically. By 568 CE the Lombards defeated the Byzantine army in Italy, fracturing the peninsula, remaining split until the 19th century. In North Africa and Middle East the Empire could not stop the Arabic invasions. Decrease in population impacted economic and administrative structures. Less people meant fewer farmers to produce grain, causing prices to soar. Trade was disrupted, agriculture was devastated, resulting in decrease of tax revenues.

The Black Death (1346-1353) was highly lethal, about one-third of Europe's population died. The population in England in 1400 was half of 1300. 1,000 villages disappeared, trade suffered, wars were temporarily abandoned. Many workers died and their families lost means of survival. Landowners who used tenant farmers were also affected. Anti-Semitism intensified: Jews were blamed, many were killed or burned publicly by mobs. Wages for artisans increased, the Renaissance evolved, and the fine art was initially preoccupied with the tragedies and afterlife.

¹ Vesselin Popovski is a Professor and Vice Dean of the Jindal Global Law School, ranked by QS as No. 1 law school in India. In 2004-2014 directed the Peace and Governance Program of the UN University in Tokyo. In 2002-2004 led the EU TACIS Project "Legal Protection of Individual Rights in Russia". In 1999-2002 Assistant Professor in Exeter University, UK. Wrote over twenty books. Ph.D. from King's College London; M.Sc. from London School of Economics. E-mail: vpopovski@jgu.edu.in

The Russian Flu in 1889 was the first global pandemic for only four months hitting all parts of the world, a direct consequence of globalization: the railroads and transoceanic steamships were perfect for the spread of the disease. More than a million people, out of 1.5 billion on Earth, died only in the first wave.

The Spanish Flu (1920-1922) was very lethal, even for healthy 20-40 yr. old. No antibiotics existed to help. Control efforts included isolation, quarantine, personal hygiene, disinfectants, limitation of public gatherings, applied unevenly. It was detrimental to businesses, many were forced to shut down. Even basic services - mail delivery, garbage collection - stopped due to sick workers. Not enough farm workers to harvest crops. Even state and local health departments closed, hampering efforts to chronicle the spread and inform the public.

The Asian Flu H2N2 started in China in 1956, spread to Singapore in February 1957, reached Hong Kong by April, and the U.S. by June 1957. Estimates of worldwide deaths vary between 1 and 4 million, with WHO figure of about 2 million. Death toll in the U.S. about 70,000. Elderly were particularly vulnerable. In the last quarter of 1957 the economic growth on an annualized basis was -4% and in the first quarter of 1958, -10%, the largest decline in the post WWII history. A vaccine was introduced in 1957 and the pandemic slowed down. After a second wave in 1958 the H2N2 became part of the regular seasonal flu.

The HIV/AIDS was first recorded in 1981. No vaccine could be found, but successful treatment was developed to sharply reduce the mortality and the total death toll has been kept at below 35 million people worldwide. The COVID-19 started in Wuhan, China in December 2019 and spread quickly. At the time of writing (December 2020) 1.75 million died globally, but with several vaccines developed time-efficiently due to a new RNA technology and a high number of volunteers in trials, the virus has been successfully contained. Its economic and political effects are still to be estimated.

FIVE TESTS OF COVID-19

The sudden challenge of the COVID-19 pandemic presented simultaneously: (1) a test of leadership; (2) a test of international co-operation, (3) a test of medical capacity; (4) a test of human-human relationship and (5) a test of human relationship with nature. The first test will be addressed in detail further in this paper, but before that let's briefly go through the other four tests.

The second test – international co-operation - has been problematic and even well-established organizations, such as the European Union, struggled to agree on a common approach. To control a pandemic both domestic and international actions are needed and the two should be coordinated and exorcized complementary. Some organizations (G-20, Médecins sans Frontières) made an excellent effort, but the World Health Organization (WHO) – the United Nations organ specifically entitled to tackle exactly public-health emergencies – came under criticisms for delays and inconsistencies² further aggravated by the US Administration's decision to stop financing it, significantly jeopardizing the global health governance. The WHO has broad responsibilities, its key guiding document is the International Health Regulations, revised substantially in 2005, covering 196 countries and aimed to prevent, protect against, control and provide a public health response to international spread of diseases in ways that are commensurate with public health risks, and without unnecessary interference with international traffic and trade. Under these regulations, the WHO is

² Those are not new, concerns have been expressed over several years, see Francesco Checchi et al., 'World Health Organization and Emergency Health: If Not Now, When?' *British Medical Journal*, 2016, <https://www.bmj.com/content/352/bmj.i469.long>.

responsible for deciding when a particular situation should be declared a public-health emergency of international concern.

The third test - medical capacity – proved insufficient in many countries,³ but it is worth acknowledging the amazing effort of many laboratories around the world to undertake innovative research, apply the latest technological advances, develop, produce, test and approve safe and accessible vaccines in a remarkable short time of less than a year. The speed of doing fast within a year what usually takes two or more years can be explained with three factors: innovative methods and technology used; huge number of volunteers ready to participate in trials; and international agreements to share data and experimental results. This remarkable scientific achievement needs to be followed with governance measures how to transport, store, distribute and apply vaccines to billions of people.

The fourth test – human-human relationship – presented some incredible stories of empathy, solidarity, volunteerism and human assistance. Successful synchronized efforts to fight the virus and maintain the health and wellbeing of people have been undertaken, and one can praise and commend the heroic commitment of medical staff to work tirelessly around the clock. Many doctors and nurses lost their life fighting the new disease, and these sacrifices will be remembered. It is also worth noting large donations of money, protective equipment, medicines, food, etc. People around the world, students in particular, volunteered their time and skills in the difficult circumstances. Many individuals donated blood to produce plasma to treat those in need. However, COVID-19 also exposed the ugly side of human behaviour, exacerbating economic, political and social inequalities, discrimination and injustices towards vulnerable and marginalized. Conspiracies have spread, tensions increased in places where populism, xenophobia, nationalism and hatred thrived. Some infected faced a stigma attached to contracting the virus, as if a direct result of their carelessness. Minorities suffered disproportionately, for example the African American community in the U.S.A. was heavily hit. In sum, COVID-19 became a test of human-human relationship with both instances of solidarity and instances of cruelty. The entire breadth of human behaviour from the highest high to the lowest low was on display during the pandemic.

The fifth test - the human relationship with nature – is twofold: on one hand, people need nature to exercise and improve their physical and mental health, crucially important against diseases; on another hand, through improper interaction with nature, humans alter ecosystems, encroach into wildlife and contribute to emergence of zoonotic diseases, such as COVID-19. This author has already written on this test⁴ and how land-clearing for agriculture and human settlements resulted in squeezing and mixing species from different habitats, creating excellent opportunities for viruses to pass from one animal to another, and to humans. Biodiversity losses and forest fragmentation reduce diversity of vertebrates and abundance of generalist species. On the opposite, biodiversity gains improve human health because of the ‘dilution effect’ reducing both the relative density of animals serving as natural reservoirs for pathogens, and the population density of pathogen vectors, resulting in fewer encounters between vectors and animals they infect⁵. Some governments – Gabon - banned the

³ See the review of how lead countries according to the newly (2019) created Global Health Security Index performed during the first wave of COVID-19 pandemic in: Krassen Stanchev, Health Security, in: Human Security in Central Europe, edited by: Marcin Zaborowski, Co-authored by: Spasimir Domaradzki, Kerry Longhurst, Krassen Stanchev and Marcin Zaborowski, A Visegrad Insight Report @visegradinsight <https://visegradinsight.eu/human-security-in-central-europe/>

⁴ Vesselin Popovski, *Covid-19 and Environmental Sustainability*, Special Article 4, Japan Spotlight, November-December Issue, 2020, https://www.jef.or.jp/journal/pdf/234th_Special_Article_04.pdf

⁵ Pearson, R. M.; Sievers, M.; McClure, E. C.; Turschwell, M. P.; Connolly, R. M. "[COVID-19 recovery can benefit biodiversity](#)" in *Science* 368 (6493), 22 May 2020, pp. 838–839

consumption of bats and pangolins to stop the spread of zoonotic diseases. Others – Myanmar - deregulated wildlife hunting and breeding, and this may create new zoonotic diseases. In Pakistan the unemployment caused by COVID-19 facilitated the recruitment of labour for ‘Ten Billion Tree Tsunami Campaign’, aimed to plant 10 billion trees, estimated global annual net loss of trees, over next 5 years⁶. Strengthening environmental protection of green spaces will be vital, but only if a healthy balance is found between using resources and protecting nature. The argument for biodiversity conservation and recreation is easier to communicate, if the full range of benefits are considered, including the contributions to human health. This author assessed also the initial impact of COVID-19 on climate change⁷ and advocated a strategy to ‘build back green’, prioritizing the implementation of sustainable development goals and combating climate change in parallel with public health and economic recovery. Doctors say ‘better to do two surgeries with one anaesthetic’: we should treat public health and climate change as a joint task, we cannot afford the luxury of a temporary halt on climate change mitigation during the post-pandemic recovery.

The first test – leadership – has been similarly problematic, as the other four. Mitigating pandemics is first and foremost a task for governments. Fareed Zakaria observed that ‘conflict made governments increasingly powerful and effective’.⁸ Adam Roberts wrote that ‘history reveals protection from epidemics as an evolved attribute of statehood’.⁹ The state responsibility for pandemics dates back to the fourteenth century, when city states in the Italian Peninsula and the Adriatic began to develop systems for taking administrative measures against plagues. Samuel Cohn in his book ‘*Culture of Plagues*’ observed that weakening of state formations is not a consequence of largescale mortalities, and exemplified this with 16th century Italy, where during the bubonic plagues some of the measures taken included preparation of adequate resources, ascertainment of clergy and health workers to risk their lives for aiding the communities. This led to unfolding of the Counter-Reformation church and the emergence of secular states. The pandemic governance of the 16th century, by laying down reasonable and effective policies for containing plagues, resulted in exaltation of leadership and encouraged absolutist authorities¹⁰.

Curiously, in the 21st century we continue to use medieval methods to overcome plagues, such as quarantining, lockdowns, social distancing, face masks and sanitization. While viruses do not respect borders, their spread and their chances of survival have long depended greatly on the laws, policies and acts of states. However, not all states are up to the job. Their effectiveness in addressing pandemics does not appear to turn on what position they occupy on the democratic– authoritarian divide. The key factors are rather the competence of leaders, their capacity to make quick decisions, willingness to listen to scientists, effectiveness of their bureaucratic machinery and the degree of trust they continue to enjoy from the citizens.

A question arises whether to judge effective leadership based on policy measures implemented in unusual, even abnormal, times of pandemics; because if so, this can make an absolutist authority the preferable choice. A pandemic can be seen as a conflict with nature that a state has to deal with, revealing whether it transforms either into a state with strong governments, or a state with diminishing governments, that lose the trust of its subjects. From Thucydides in 400 BC into the present days epidemic governance has affected significantly the fate of states, both short-term and long-term, and the danger of leadership becoming

⁶ ["As a 'green stimulus' Pakistan sets virus-idled to work planting trees"](#) in *Reuters*, 28 April 2020

⁷ Vesselin Popovski, “Missing Climate Action: Unfulfilling Sustainable Development” in Vesselin Popovski and Narinder Kakar (eds), *Fulfilling Sustainable Development Goals* (Taylor & Francis, 2021)

⁸ Fareed Zakaria, *Ten Lessons for a Post-Pandemic World* (W. W. Norton & Company 2020) 39.

⁹ Adam Roberts, ‘Pandemic and Politics’, in *Survival*, Volume 62, Issue 5, 2020, p. 13 <<https://doi.org/10.1080/00396338.2020.1819641>> accessed 11 December 2020.

¹⁰ Samuel K. Cohn Jr., *Cultures of Plague: Medical thinking at the end of the Renaissance* (Oxford University Press 2010) 299-301.

emboldened during pandemics, increasing central state intervention and making people obedient in fear of mass death.

DOES DEMOCRACY MATTER?

It is not easy to ascertain which particular political regimes are better or worse at containing plagues. One of the reasons is that in the present time countries cannot be classified into sharply defined categories. While we do have different versions of democracy, parliamentary and presidential types, we also have democracies that have taken shape of semi-democracies or illiberal democracies¹¹.

Plato in *The Republic* delineated five basic types of political regime in the order of their efficiency and competency in various aspects of holding a strong government for the betterment of people. **Aristocracy**, he believed, to be the finest of regimes, led by philosopher-king, who would be scholarly cultivated to lead a state following the best interests of its subjects. Such a leader would not own property for any kind of personal gain and would only govern for the furtherance of the society. When such an aristocracy is debased, it may turn into a **timocracy** wherein only land-owning men could vote and men that were in power would not be as well-educated as they would be in an aristocracy. Due to its egocentrism, a timocracy would be degenerated into an **oligarchy**, the rule of the rich. Oligarchy will then degenerate into a **democracy** where freedom is both a supreme good, but can also be a slavery, and as the lower classes get bigger and more powerful, they can break the law and lead to anarchy. Plato considered aristocracy to be the best regime, and oligarchy and democracy to be menacing regimes as such governments act purely in furtherance of own interest and advantage rather than the greater interest of the society. While Plato believed democracy to be volatile, the worst kind of regime that it can deteriorate into would be **tyranny**. Plato's view on political regimes can be an understanding of how political regimes are unstable and are always susceptible to change¹².

Martin Loughlin discussed the degradation of political regimes in the context of constitutional democracy and noted that although constitutional democracy culminated in 2006-2011, it has only deteriorated since.¹³ The idiosyncrasy of such deterioration is that constitutional democracies are not 'being overthrown by *coup d'état* or other type of fundamental collapse'... they have being degraded and 'such deterioration is due to an increase in 'defective democracies', defined as 'regimes that retain the formal institutional trappings while flouting the norms and values on which constitutional democracies are based'.¹⁴

There is a nexus between Plato's explanation of degradation of political regimes and the concept of 'defective democracies', moreover in the present context for the purpose of determining the interests of the political leaders while dealing with pandemic crises. Researchers have placed governments within the spectrum of democracy or tyranny for the purpose of understanding how a particular state dealt with Covid-19, even if accepting the difficulties to define sharply these categories. While a political regime in itself may not be a definitive parameter, the leadership roles executed within these regimes would have significant effect on the management of the pandemic. The reason behind such a postulate is the observation that while some democracies have battled the pandemic impressively and effectively, others have managed it in the worst possible manner. Yet the COVID-19 crisis

¹¹ Fareed Zakaria, *The Future of Democracy: Illiberal Democracy at Home and Abroad* (W.W. Norton 2007); Yascha Mounk, *The People v. Democracy: Why our Freedom is in Danger and How to Save It?* (Harvard University Press 2018)

¹² For further details and analysis: Steven Cahn, *Classics of Political and Moral Philosophy* (Oxford University Press 2002)

¹³ Martin Loughlin, 'The Contemporary Crisis of Constitutional Democracy' in *Oxford Journal of Legal Studies* Volume 39, Issue 2, 2019.

¹⁴ *Ibid* pp. 436-437.

continued to have illiberal consequences, in over 60 countries and territories, it was the basis for postponing national and local elections¹⁵. In some places, the emergency legislation suspended a range of constitutional procedures and citizen rights, Adam Roberts presented in detail two instructive examples - Hungary and Hong Kong¹⁶.

In a study at Oxford University, Frey, Chen and Presidente examined the correlation between policy measures taken by governments across 111 countries and levels of geographic mobility in these countries respectively. Various methods were used, the basic dataset being the Oxford COVID-19 Government Response Tracker to compare the policy responses of governments of selected countries, and using Google's Community Mobility Reports to retrieve data on movement and travel. The study found that policy responses of governments of autocratic regime were more stringent than that of democratic governments, as the former imposed stricter lockdowns and depended more on contact tracing. However, the findings also reveal that while autocratic governments did lay down comparatively stringent policies, they governments did not succeed in reducing mobility. In fact, it was observed that democratic governments were more effective in reducing geographic mobility despite having less stringent policies than autocratic governments. It is important to note that, at the same level of policy stringency imposed, democratic governments were more effective in reducing geographic mobility.¹⁷ The study acknowledged the many variables that come into play and one such variable is the state capacity to impose lockdowns and implement policy measures in response to a crisis being crucial. Analogously, deep-rooted cultural traits of a particular state can also act as a variable in assessing the effectiveness of policy measures imposed.

Another study, *Corona politics: The cost of mismanaging pandemics*¹⁸ helps to understand how decisions, taken by leaders for managing the pandemic, serve as a test for respective governments. While the Oxford study examined the correlation between stringency of policy responses and level of geographic mobility, this one broadly examined how policy responses affect approval ratings. A comprehensive, high-frequency dataset of 35 countries included looking into the growth rate of the infection, policy stringency and government approval rate. One finding was that increase in number of infections did act as an important variable, people were more affected by the increase in infection rate compared to resulting deaths. What is interesting is that approval rates of governments reduce not only because of high number of cases, but rather by poor policy choices to manage the pandemic. The relationship between case growth and approval is only significant when rising infection numbers coincide with loose policies. This suggests that leaders are evaluated by their policy choices, and not only by the consequences of the pandemic. Another finding was that higher political support from public was lent to governments that prioritize health outcomes over economic outcomes. Hence, various factors, such as quality of policy measures levied, effort made by governments to contain the infection spread and their priorities determine the quality of political leadership in managing the pandemic.

In sum, there are various factors, including but not limiting to leadership, policy decisions and cultural traits, that play role; and the pandemic did act overall as a crucial test of political leadership. Although every country is facing the same crisis, it is the policy measures laid down by the leaders to deal with the pandemic that affect the infection rate and the death rate. Furthermore, the course of action for implementing the policy measures is also acting as a test

¹⁵ See International IDEA Institute for Democracy and Electoral Assistance, 'Global Overview of COVID-19: Impact on Elections', 18 March 2020, <https://www.idea.int/news-media/multimedia-reports/global-overview-covid-19-impact-elections>.

¹⁶ Adam Roberts, note 7 above, pp. 34-35

¹⁷ Carl Benedikt Frey et al, 'Democracy, culture, and contagion: Political regimes and countries' responsiveness to Covid-19' (2020) 18, Covid Economics: CEPR Press 222.

¹⁸ Helios Herrera and others, 'Corona Politics: The Cost of Mismanaging Pandemics' (2020) 50 Covid Economics: CEPR Press 3, 5.

of political leadership. Fareed Zakaria in his book *Ten Lessons for a Post-Pandemic World*, wrote: ‘What matters is not the quantity of government but the quality of leaders, their policy decisions and measures to deal with a crisis that shape the government and the trust of people’¹⁹. Within democracies, countries that dealt with the pandemic effectively comprised of some big governments and some small governments. If the size does not matter, the common elements were how competent, well-functioning and trusted were these governments. Zakaria also deliberates as to why did some of the biggest democracies with leading economies like the U.S. and the U.K. fail to deal with the pandemic effectively. The paradox is that the U.S. is one of the richest countries with leading industries and resources that many countries would have been fortunate to have while dealing with a pandemic, but all these advantages by the time the virus hit the U.S. ‘seemed like a cruel joke’.²⁰ He explained that part of the responsibility of mis-handling the pandemic does fall on President Trump, but part of the blame also falls onto the entire government. There were missteps across various agencies of the government, and ‘these ills of government are an American, not a democratic disease’.²¹

Many democracies managed the pandemic effectively: New Zealand, Germany, Taiwan, South Korea and Australia. Curiously Greece managed the pandemic comparatively well despite being known for its bureaucracy and lack of trust in government. Zakaria stated that Greece ‘was led by an able, technocratic leader who believed in science and good management. Sometimes the tone from the top makes all the difference.’²² This ‘tone from the top’ is crucial in managing the pandemic – and this includes: adequately communicating the risks of the infection; gaining trust of public for diligently following particular course of actions; respecting medical staff and all individuals risking their lives to aid the rest of the people; being a role model to follow necessary protocols. The leaders should have set in motion not just robust statements and economic consequences of their decisions, but also exemplary roles and cautionary tales of learning the lessons and ability to lead in a post-pandemic era.

Democracy does matter, but it is not everything that does matter. The bureaucracies of the democracies, their economies, deep-rooted cultural traits, the nature of the markets, the ideologies, each and every layer of these, and most importantly the leaders of these democracies - all of them do matter in pandemic governance.

DOES GENDER MATTER?

Why were the female leaders more effective and successful in managing and containing the COVID-19 pandemic? There has been many discussions on the policy responses and the method of execution of these policies taken by female leaders and it has been covered to a great extent on media and in popular debates. The Chancellor of Germany, Angela Merkel, and the Prime Minister of New Zealand, Jacinda Ardern, have primarily been the focal point of this discussions.

As female national leaders led their states into effective managing and controlling the COVID-19 pandemic, researchers examined whether gender matters while dealing with the crisis. Garikipati and Kambhampati²³ carried out a study to determine how does gender affect the COVID-19 outcomes in terms of adopted policy measures and managing the spread of the

¹⁹ Zakaria (note 8) at 28.

²⁰ Ibid. 33

²¹ Ibid 34.

²² Ibid 35

²³ Supriya Garikipati & Uma Kambhampati, ‘Leading the Fight Against the Pandemic: Does Gender ‘Really’ Matter?’ (2020) <<https://www.reading.ac.uk/web/files/economics/emdp202013.pdf>> accessed 3 November 2020.

infection effectively. They started with all countries that ‘Worldometer’ provides data on, but some fell out because no matching data from other sources was found. The study ended up with 194 countries of which 19 have female leaders. These countries were very different - as small as Aruba and Saint Martin, and as big as Bangladesh and Germany. The basic dataset for the study included population size, number of cases over the age of 65, population in urban agglomerations and baseline estimated GDP. In addition, health expenditure, tourism numbers and gender-inequality index were also included. The authors added the gender-inequality index because according to them, if a country is liberal and progressive as far as gender roles go, then it might have a different attitude towards the ways in which it would deal with a pandemic. As the number of countries led by female leaders are comparatively low, a modelling technique of nearest-neighbour matching was used, based on the dataset of each female led country being matched with its nearest neighbour male led country.

The findings of the study showed that COVID-19 deaths were significantly lower in female led countries. According to the authors, the difference is that female led countries went into lockdown significantly before male led countries, and their leaders were better at communicating specific measures, engaging with science in more details and having clear cut strategy.²⁴ The literature on behavioural differences between male and female leaders has established a general perception that female decisions are more affected in terms of risk aversion. When the decisions concern human lives, or the economy, female leaders are more risk averse, than males, respectively. Interdisciplinary research suggests that domain differences do matter in risk aversion. Neuroscience literature addresses how there are neurobiological underpinnings for the sex differences that we find in feelings of empathy. These cannot all be concluded as merely being a cultural corollary of socialisation, still females are more empathetic than males, and this characteristic explains why female led countries responded earlier and better to save lives as opposed to saving economies.

Only about nine percent of the countries worldwide are led by women, a rather small sample to conclude on definite findings, still a clear difference has been observed in the styles of leadership maintained by females and males. Female leaders seem to be much more communicative and adopted participatory style of leadership, compared to men. While men adopt more task-oriented type of leadership, women adopt much more interpersonal styles of leadership. Angela Merkel, Jacinda Ardern and Norwegian Prime Minister Erna Solberg are good examples of participatory style of leadership.

We are still in early stages of pandemic governance assessment, and it is better to refrain from stereotyping male and female leaderships through popular opinions. Still, it is possible to keep an open mind and promote communicative and participatory styles of leadership, be it under male or female leadership. Amartya Sen stated: “Tackling a social calamity is not like fighting a war which works best when a leader can use top-down power to order everyone to do what the leader wants – with no need for consultation. In contrast, what is needed for dealing with a social calamity is participatory governance and alert public discussion”.²⁵ Different communities may have different priorities and concerns, “some – the more affluent – may be concerned only about not getting the disease, while others have to worry also about earning an income (which may be threatened by the disease or by an anti-disease policy, such as a lockdown), and – for those away from home as migrant workers – about finding the means of getting back home. The different types of hazards from which different groups suffer have to be addressed, and this is much aided by a participatory democracy”²⁶.

²⁴ Ibid.

²⁵ Amartya Sen, ‘Overcoming a Pandemic May Look Like Fighting a War, But the Real Need Is Far From That’ *Indian Express* (India, 8 April 2020), <<https://indianexpress.com/article/opinion/columns/coronavirus-india-lockdown-amartya-sen-economy-migrants-6352132/>> accessed 16 October 2020.

²⁶ Ibid.

LEADERSHIP DOES MATTER

Francis Fukuyama observed “Major crises have major consequences, usually unforeseen. The Great Depression spurred isolationism, nationalism, fascism, and World War II, but also led to the New Deal, the rise of the United States as a global superpower, and eventually decolonization. The 9/11 attacks produced two failed American interventions, the rise of Iran, and new forms of Islamic radicalism. The 2008 financial crisis generated a surge in anti-establishment populism that replaced leaders across the globe”²⁷.

What will future historians say about the leadership during COVID-19? Policy responses adopted by leaders during the pandemic will define the progress of their economies, culture and the sustainability of all aspects pertaining to a healthy and prosperous lives of their people. It is apparent that while democracies do have a positive impact in the management of the pandemic, what matters more is efficient leadership and efficient bureaucracy. This explains why some of the biggest democracies of the world have failed to effectively take charge of the COVID-19. Three biggest democracies in the world – India, the U.S. and Britain - failed profoundly to protect their large countries, whereas China, a non-democracy, succeeded to contain the virus and protect its 1.4 billion people. Paradoxically, India and the U.S. for all these agonizing months in 2020 repeatedly tried simply to put all blame on China, instead of adopting effective strategies to stop the spread. Therefore, it would be inefficacious to glorify democracy amidst the pandemic over authoritarian regimes or any other kind of hybrid regimes as international cooperation is more crucial now than ever. Efficient leadership across all nations needs to steer the world towards a better and healthy future. One can only hope that the pandemic will bring the realisation of what kind of future leaders we need.

Instead of dismissing the WHO, it needs to be fully supported and empowered as an indispensable multilateral public health institution. Recommendations of independent review bodies, such as the Global Preparedness Monitoring Board and the Independent Panel on Pandemic Preparedness and Response, need to be implemented. Governments must turn the disruption of economic, social and political models engendered by COVID-19 into a catalyst for wider pro-health reforms - including fresh approaches to transport, housing, employment and equality. COVID-19 has shown we are all only as safe as the weakest link in the human chain. It is only by embedding solidarity and justice in public health policies that the world can truly overcome the crisis and face the future with confidence.

One certain consequence of COVID-19 is that it brought the U.S. reputation to a major decline. The trend began long ago with the Vietnam Wars and gained momentum with the prolonged conflicts in Afghanistan and Iraq. But Trump’s willful alienation of allies and international institutions has accelerated and intensified the problem. With his serially idiotic involvements with COVID-19 he failed miserably to look after his own country and people. Simplistic verbal attacks on China and the WHO have shown an inability to temper disagreement with basic civility and attention to facts. In a long line of major missteps, Trump’s crowning failure arguably was his complete abdication of any domestic and international responsibility.

The long-term effects of epidemics have been huge. Dealing with them has always been difficult and remains so today. The history of epidemics suggests that the present crisis is

²⁷ Francis Fukuyama, ‘The Pandemic and Political Order’ *Foreign Affairs* (July/August, 2020) <<https://www.foreignaffairs.com/articles/world/2020-06-09/pandemic-and-political-order>> accessed 3 November 2020.

likely to have a long tail, and that other epidemics are to be expected. The scope of the threat is undoubtedly international – COVID-19 spread fast around the globe largely because of modern means of travel – and vigorous international collaboration among medical professionals has been one redeeming feature of this crisis. The specialised roles of international bodies such as the WHO remain essential. Yet the very scale and expense of the tasks faced, the continuing suspicion among states and the tendency of great-power disagreements to be dragged into such organisations make them unable to assume overall responsibility for managing pandemics.

CONCLUSION

The pandemic governance necessarily involve the hazard-strewn task of goal-setting. In the case of COVID-19, the capacity of the virus to stage a second rise in cases after it had been beaten in a particular area is one of many reasons for caution in promising and claiming successes. Complete worldwide elimination of the virus should of course be an ultimate goal, but is almost certainly unrealistic in the short or medium term. In the meantime, the main aims must be to use a wide range of measures to reduce the circulation of the virus among the population and minimise the susceptibility of the population to it. These include old-fashioned quarantines as well as the sophisticated modern development of vaccines.

Trust in leadership is essential because struggles against infectious diseases necessitate a degree of individual sacrifice for the social good. If people are required to stay indoors for months, to socially distance, to deploy their skills on the front line or to accept a vaccine despite a barrage of hostile internet propaganda, they need a sense that the advice they are getting comes from an honest source, is given for good reasons and contemplates a plausible goal. While the war analogy is tempting, it does not sit well with struggles against pandemics because the process of coping with virus-laden threats is necessarily de-centralised and unspectacularly administrative and social.

The process of ending pandemic lockdowns and other measures may yet prove more socially divisive than their initiation. It requires difficult and controversial judgements about whether and how to relax certain measures and risks involved. Within communities, care-home staff or schoolteachers may feel it is unsafe to resume their normal pattern of work without access to certain evidence, protective equipment, test procedures and other support. There may be fundamental disagreements as to how policies and institutions need to change in light of pandemic experiences. In the international context, disagreements may arise when one country's action, or refusal to act, poses risks for other states and their citizens. Notwithstanding the obstinacy of some leaders, there is no denying the pressing need to coordinate and harmonize policies between all levels of government and across borders.

COVID-19 brought a sense of shared understanding that mankind is not infallible and that nature cannot be abused. The humility and gratefulness for all that we have in times of adversity gives us an opportunity to build back better in a way that is just, kind and equal for all humans.

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INTERDISCIPLINARY LEARNING PLATFORM FOR CONSTITUTIONAL LIBERTY

NOUS stands for Netzwerk für Ordnungsökonomik und Sozialphilosophie, or in English: “Network for constitutional economics and social philosophy”, please visit the website (<https://nous.network/en/>) to familiarize yourself with the intentions of the group.

Currently, the Network has about 80 members, world famous professors in constitutional economics and law, history of ideas and institutions, politics and social philosophy. In addition, it cooperates with the Atlas Network and five institutes from Germany. This “German Connection” is logical – the attention to the Economics of Social Order (or constitutional economics, in more international professional slang) was, perhaps, most profoundly elaborated by German and Austrian social philosophers and economists.

It is an information platform and a community for interdisciplinary research. Having met about 40 or so NOUS members personally and for years following their academic and non-academic publications, I am impressed by their reasonable, highly intelligent and educated social and political (mostly via writing and media) activism. Practically all NOUS experts are members, founders and key leaders of think tanks, intellectual fora and academic/educational outlets. If I am not mistaken, at least one third of them are also members of the Mont Pelerin Society.

The purpose of NOUS and prime motivation of its members, at least as I understand it, is well described as *Das Glasperlenspiel*, after Hermann Hesse novel that won him Nobel Prize for Literature in 1946¹ - a liberal, moderated and enlightened discourse about social order and liberty.

As such the Network organizes events and disseminates publications. The organization of events has accelerated in 2020

The dissemination of publications is done already for six years, and the collection is approximately 120 entries. Few of them disseminate information about notable publications like *The Oxford Handbook on Austrian Economics* or the *Encyclopedia of Law and Economics* (by the editors). All other essays and articles (the requirement is that must have been published before appearing on the NOUS website) deal with complex, deliberately challenging subjects that, for one reason or another, remained and are not well covered by the main stream academia, publishing houses and media. The list of such publications may seem short but is, in fact, very rich. The “Publications” subpage (<https://nous.network/en/category/publications-en/>) allows downloading from the source of the original publication.

¹ The full title of the novel in English should read “The Glass Bead Game as an Attempt to Describe the Life of Magister Ludi Josef Knecht and the Writings Left by Knecht”.

The “Opportunities” subpage would lead members and non-members to different calls for papers, courses, and open professorship, plus graduate and post-graduate programs and scholarships.

Particularly attractive is NOUS’ Young Affiliate Program: <https://nous.network/en/network/young-affiliates/>. It gives the postgraduate members of YAP access to programs and events; the application is easy...

Let me wish all interested readers pleasant intellectual endeavors,

Krassen Stanchev, Responsible editor