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Reflections on currency boards and monetary federalism

À propos de : Hadrien Saiag, *Monnaies locales et économie populaire en Argentine,* Recherches Internationales, Karthala, Paris, 2015

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The book of Hadrien Saiag (HS) took me back to memories, exactly twenty years ago. In 1996, Bulgaria went through a deep financial crisis and hyperinflation, and in mid-1997 introduced the Currency Board similarly to Argentina in 1991. The introduction of the Currency Board coincided with the outset of my research career in the Bulgarian Central Bank. During that period our attention was focused entirely on the new radically changed monetary system. I, as well as most Bulgarian economists, considered that the introduction of the Currency Board was the right decision providing the fresh onset of a strict monetary order, clear rules and suspension the vicious practices of uncontrolled and bandit accumulation of debts and their consistent monetization through the issue of money. Argentina and its monetary system was a model to be followed and in a sense admired. Domingo Cavallo was a hero while a number of Argentinian economists visited Bulgaria and explained the operation and effects of the Currency Board and the Convertibility Law. I remember Cavallo's article entitled "The Quality of Money" (1999)[1], which I discussed with my students. I particularly liked that Cavallo began his arguments with the sentence «Money Is an Institution».

1- This article was Cavallo's speech on the occasion of his being awarded the honorary degree of Doctor Honoris Causa of the University of Paris Sorbonne.

Ten years later I, in addition to many others, was bitterly disappointed when the Currency Board in Argentina collapsed and the so-called *corallito* was introduced and later the asymmetric *pesofication* (Rapoport, 2010). For its part Bulgaria has preserved its Currency Board which is functioning today twenty years after its introduction. The Bulgarian economists' reaction to the crisis was reduced to the arguments that Argentina's Currency Board was not genuine (government bonds were allowed in its balance sheet, the coverage of monetary base was not complete, poor choice of anchor currency, etc., as well as charges for the accumulation of deficits in the public sector at different federal states level (Berlemann and Nenovsky, 2004). The ensuing spontaneous dollarization and the emergence of multiple local currencies was interpreted as a liberal response to the crisis.

HS's book sheds new light on the years of the Currency Board and its collapse, offering an original reconstruction and interpretation of numerous facts and practices which are of great interest not only as regards Argentina's fiscal history but they also open up new horizons for the interpretation and theorizing of money. The book has a direct practical significance as regards the Eurozone crisis and the discussions on its future organization. It is a matter above all of Argentina's practice of monetary federalism. It is true that in another configuration, and on a different level it could be considered a sustainable solution of the Eurozone problems (in a nutshell it boils down to the peaceful coexistence of the supranational euro and the national money[2] having become fiscal)[3].

HS's book presents and reconstructs the practices of local money emission in Argentina during the Currency Board period and at its peak during the 2001/2002 crisis[4]. This is done from the standpoint of theoretical instruments of the French Monetary Institutionalism (see Alary and *al.*, 2016). On condition that there are some differences between individual authors, the essence of this theoretical approach boils down to bringing to the fore the institutional character of money (as opposed to the instrumental monetary theory characteristic of the mainstream), giving priority to the function of the unit of account and means of payment rather than to the function of means of exchange (store of value is not a function of money), emphasizing the genetic relationship of money and debt (money measures debts and is not a solution of the barter problem), and that money is the result of a different level of trust ("ethical, methodological and hierarchical"), etc. Within the analytical framework pointed out above, money is a leading and systemic institution having emerged historically and logically prior to markets and capitalism whereas the diversity and multiplicities of monetary emission is a normal and structurally stable situation. Money emission, issue occurs whenever a definite payment and monetary community is formed with its own economic and political project[5].

2- Fiscal money is issued against future tax payments.

3- For details see Théret and Kalinowski, 2012.

4- Another fundamental research of the Argentinian decentralized practices was carried out by Georgina Gomez (Gomez, 2009).

5- The French Institutional Monetary theory has its specificities and original components though it somehow fits in and leans on the contribution of old institutionalism, of Marxism, of Polanyi's works, of chartalism, etc.

With a view to the above standpoints the logic of HS's book becomes understandable. The main methodological principles of reconstruction have been set forth in the introduction ("Towards an Anthropology of Money") whereas the practice of money emission of *creditos* within the framework of the *trueque* systems has been set forth in the first chapter, entitled "Trueque, the History of a Money Emission". This has been accomplished by a detailed economic and sociological microanalysis of the occurrence and reproduction of local fiscal practices (considered a democratic "solution from below"). This chapter presents the evolution and crisis of local monetary networks (emissions) through the prism of "constant tension between the trends towards centralization and towards federalism" between "centralization (unification) and decentralization (fragmentation) of the money issue." That contradiction is a fundamental and archetypal problem of the money emission. Of particular importance for the project of the possible fiscal federalism in Europe is the analysis of internal contradictions within the monetary federation, of the problems of articulation of different types of *creditos*, as well as their relationship with the official money, the peso. It is a matter of the formation of exchange rates and the convertibility of the different types of money, of the emergence of inflation and the difficulties in the allocation of monetary income (seigniorage)[6]. To this effect the illustrations chosen by HS and the comparative analysis of the various attempts (the network of networks, i.e. the monetary federation and the subsequent differentiation of a centralized system) enable an empirical interpretation of a fundamental monetary contradiction. In methodological terms, it is important to emphasize the author's claim that theorizing, including the definition of money can and should only be based on monetary practice, on facts and on what has been given to us.

The second chapter entitled "Monetary Practices in the Light of Debt" follows the logic of a more profound theorization and makes the next step, namely to dissociate monetary decentralized networks from the existence and reproduction of decentralized networks of debts. It is precisely the latter that give rise to the need of developing payment and monetary communities within which a common unit of account and a means of payment are formed. Money is a "system of evaluation and p. 94), it must be interpreted "as a system of debt evaluation rather than as a measure of value" (p. 113) because "any monetary system can have its own system of relative values" (p. 145). This chapter has motivated and has attempted to verify empirically an important and controversial theoretical postulate. It's about the unicity of the unit of account and the level of situating that unicity. According to HS any monetary community has its own unit of account. This postulate is also valid for the individual local currency networks where the local unit of account is developed regardless of the national currency (in this case the peso). Arguing with other researchers of the Argentinian practices who consider that the peso remains a universal unit, in effect for the local systems as well, HS shows the unstable relationship between local and national units of account (the exchange rate between them). Every monetary community is a relatively closed system and definite "interfaces" exist between

6- Though it is a different topic, it may be interesting to note the similarity of the difficulties mentioned above and the problems decentralized monetary unions which existed in history (the Latin Monetary Union, the Austro-Hungarian Empire, the last years of the Soviet fiscal system as well as that of Yugoslavia).

individual communities. The stability of the relation of the local unit of account and the national unit of account is determined by the strength of the monetary community in as far as it has a political project, in as far as it is a political community (as an example HS gives the *Poriajhú* network which has a political project unlike the *Rosario* network which does not have one).

The third logical unit in HS's theoretical model is the most profound one related to the evolution and nature of the networks of debts. HS illustrates it in the third and last chapter entitled "The Practice of Saving and Indebtedness within the Frameworks of Destroying Relations on the Labour Market." The main idea as I understand it is the dissociation of local networks of debts as a reaction to the destruction of the labour market following the introduction of the Currency Board (1991). In fact the Currency Board is regarded as an institutional driver of the complete liberalization of Argentina's economy and above all of the labour market and social systems[7]. I will just mention that this process is regarded extremely negatively by the representatives of the French monetary institutionalism, HS is no exception. What is authentic in this case does not pertain to the standpoint itself but rather to its application to Argentina's monetary practices (1991-2002). The internal logic in the author's theory cannot be disputed. According to HS the Currency Board destroys the official labour market, develops grey economy, ruining intergenerational contracts, limits the access to finance for new business and leads to a gigantic expansion of inequality and poverty. The stratification of the Argentinian society becomes increasingly visible, social time is torn apart (i.e. many social times emerge on various levels in different debt networks). Debts reproduce within these networks, which for its part reproduces monetary networks and communities.

In a nutshell HS's book is an achievement, it includes valuable historical and empirical material, interesting theoretical generalizations and new guidelines for the development of monetary theory in the course of institutional and anthropological analysis.

Although it is difficult to bring the practices of local monetary federalism of a particular country (Argentina) beyond the national level, it can be assumed that there are common principles of the mechanisms of monetary federalism and especially a community of the major problems which must be solved by adapting this experience. To this effect the Argentinian experience is extremely valuable in the discussion on the future organization of the European monetary system and above all for elaborating an efficient and *long-term* proposal for monetary federalism in Europe (it is no accident that one of the most ardent supporters of the European monetary federalism Bruno Théret has been studying the Argentinian monetary practices for many years[8]). I am personally a supporter of monetary federalism and consider that it can be applied to the state of Balkan economies, which are currently debating actively whether it is appropriate to adopt the euro. In this scenario the euro will be introduced as an official currency but having become fiscal the Balkan national money will be preserved.

7- The structural role of the monetary regime within the overall institutional system is something familiar in this case (Magnin and Nenovsky, 2016).

8- Jointly with J.-M. Servet he has also been a scientific adviser for HS's doctoral thesis.

As far as the efficiency of the Currency Boards is concerned this is a controversial matter. I leave aside the controversial statement according to which local monetary practices are related to the restrictive and liberal nature of the Currency Board (Hanke, 2016). Thus monetary federalism turns into a short-term anti-crisis solution, into some form of a deviation from the otherwise possible "correct" monetary regime. This in a way contradicts the fundamental thesis of the book that money and monetary communities are always diverse and at different levels (not only at a national level). It is not clear which is the right monetary regime.

My experience with the Currency Board in Bulgaria, which has existed for twenty years now gives me grounds to believe that the alternatives may be considerably worse. The success of a definite monetary regime depends on a number of other institutions and political factors. And most importantly there is a definite hierarchy and asymmetry in the world economy between national money which is inevitable. Moreover it is extremely difficult for a small or even for a medium-sized country to pursue an independent monetary policy (see i.e. Cohen, 2015). But this is a topic of a different discussion. In conclusion, we can say that Hadrien Saiag's book is a valuable contribution to the discussion about the nature of money and the functioning of monetary systems in the light of local monetary practices.

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