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BULGARIA'S TRANSITION TO A MARKET ECONOMY

The transition of the post-socialist economies to a market ones is not possible without first genuinely reforming the political system. The change of the political system does not mean only new faces or replacing the old administration with another one with the same managerial approach. The solution is to demolish the old system and build a new one instead. If something is to be changed, we must first know what it is that we want to change and what will replace the old system.

During the period after the Second World War (WW2) up to the late 80's Bulgaria did not build either a socialist or communist society. It functioned as a single-party dictatorship society with centralized command economy and considerable outside influence (political, military, economic, cultural, etc.), and for the most part of the period - in the conditions of Cold War. All attempts to reorganize the society by way of political or economic reforms were unsuccessful. The idea of communism as an alternative of social development lost its credibility although the idea was very attractive in the first two decades of the 20th century. In the first years after WW2 the idea was still appealing to many, because it offered humanity instead of the war horrors. But communism turned out to be an utopia and fiction. It swayed the minds, but nobody gave the people direction as to when, where and how it can be realized. Socialists before Karl Marx were visionaries, Marx was a realist, and after V. I. Lenin most of them were empty-headed adventures.

The evolutionary development in Bulgaria was stopped after WW2 and another social system was imposed. This was a paradox: an attempt was made to develop supposedly more democratic society without any historical experience of democratic practices and democratic institutions. The lengthy authoritarian rule left little hope for full social democratization. Politics and demagogy prevented us from facing the real social problems. For political reasons the 'iron-triangle' did not take real

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steps to do necessary reformations step by step. All these factors contributed to the political instability in Bulgaria and created too many obstacles on the way to economic reform.

The economic reform in Bulgaria could not achieve the macroeconomic stabilization targets as they were initially set. The social cost has been rather high so far, but the process still continues and so the social fatigue from the reform is increasing.

Collapse of the Soviet Economic Model in Bulgaria

The main trend in the world economy can be described as technological innovations which bring forward increasing interaction and interdependence. The Bulgarian economy has been one of the most rapidly growing European economies in the last seventy years. The reasons for this are: interest of individuals to education, foreign technology transfer, hardworking people, open economy, centralized economic management, economically educated officials and politicians.

Economically Bulgaria is a small open economy, but foreign exposure meant before very close orientation to the former Soviet Union and as well as CMEA, more than any other ex-socialist country in Central and East Europe. Bulgaria had more than four decades of centrally planned Soviet model type of development. Under this type of economic management Bulgaria pursued a strategy of rapid industrialization and transition from agrarian to industrial economy. After WW2, transformation was based initially on substantial financial and technological transfers from USSR, high domestic investment rates, and growing specialization in machinery exports, mainly into the large and protected CMEA market. Bulgaria was the country that has made substantial economic progress.

There are two important issues and one question:

Bulgaria is not rich in mineral resources and sources of energy and at the beginning of its industrialization after WW2 the country used mainly Soviet technologies with high consumption of energy and raw materials. The country had close political, military, cultural, scientific and economic orientation to and cooperation with the former Soviet Union in any independent way without loss of its national identity and official state sovereignty or pressure (no presence of Soviet military forces in the country). To some extent these relations were closer than intrastate relations between some of the Soviet republics. This did not mean that Bulgaria was part of the Soviet federation, but in practice this was an example, which has some historical meaning and must be investigated more thoroughly and carefully.

Despite many shortcomings Bulgaria achieved substantial economic progress during this period. Between 1938 and 1990 per capita income grew at an annual rate of over 4% to about 5500 USD, agriculture employment

was one fifth, the physical indicators of well-being and social indicators suggested a relatively high standard of living, labor force was well educated.

The cost of these achievements, however, was very high: environmental degradation, low efficiency of production, wide budget deficit, a rapid buildup of external debt inconvertible currency to more than 10 bn USD, a debt service which rose to almost four fifths of exports in convertible currency. Besides, growth strategy became difficult to sustain.

The political and economic orientation of Bulgaria to the USSR after WW2 was not a case of choice. That was the result of the political decisions of the Great Powers. It is not true that 'division of Europe between East and West was a product of Soviet power' ¹ only. In addition there were historical roots for that orientation of Bulgaria. It was accepted from the better part of the population, though at that time it was not clear what that would mean for the future development of the country.

The question arises then, what would have been the result had Bulgaria chosen a different political orientation after WW2 (this is only a hypothetical possibility)? There is perhaps no clear-cut answer to this, but some conclusions may be drawn judging on the basis of the outcome in the neighboring countries like Greece, former Yugoslavia (some regions of this country) and Turkey. It is arguable whether the country would have received more benefits in this case. Additionally we have to bear in mind, that Bulgaria, except for the Macedonian region, emerged as an independent Balkan state after the Ottoman Empire yoke in 1878, as a result of the success of Russia in the Russian-Turkish War.

After the Bulgarian liberation, economic growth experienced many political and economic ups and downs. Very important for the country's development was the fact that, quite often in its history Bulgaria had a very difficult economic environment. Bulgaria was granted external credits at very unfavorable terms. From 1878 to the middle of 1942 Bulgaria received approximately 20 foreign loans ². At the end of WW1, Bulgaria had outstanding debt of 915.5 mil. golden francs which was approximately 78 per cent of its annual GDP. After the War Bulgaria came out with the largest external debt, of all European countries.

The changes in the socialist countries are of a particular nature which is also contradictory. It is difficult to summarize and analyze the specific real situation in all these countries. Some authors speak about 'current wave of socialist restructuring'³ and others about collapse of 'socialist regimes in

¹ *The Old World's New World*, A Survey of Eastern Europe - The Economist, March 13, 1993, p. 3.

² Vasilev V. A! - The external debt..., 'Duma' (Bulgarian daily), April 13, 1993.

³ Koford J. K., J. B. Miller and D. C. Colander. - Application of Market incentive Plans to Translation in a Socialist Economy, University of Delaware, Newark, 1990 WP No. 90-32, p. 3.

the Soviet Union and other Eastern European countries in rapid succession during a very brief period of time... that no one can stop⁴ and 'economic transformation (which) will redraw the map of Europe' (argues John Parker)⁵. These positions are reasonable if one looks at all countries, or part of them, for instance CEEC, including the former USSR!

What are the causes for the collapse of the Soviet Block and the socialist economic system in CEEC? A lot of explanations and answers to this question are dealt with in a superficial way. When Kyoichi Ishihara wrote about China's conversion to a market economy in his book he underlined some aspects of the economic difficulties faced by all of these countries⁶.

(1) Privilege and corruption have become widespread among party nomenclature and bureaucrats;

(2) The central government's information-processing capacity has lagged behind the requirements of the expanding economic output;

(3) Accelerated inflation and income gaps among the rich and the poor were some of the contradictions which generated discontent among the masses and forced the government to accept wage increases and to pay price subsidies. These however did not contribute to make the work more intensive or productive, and as a result fiscal deficit increased, inflation accelerated and the national currency weakened;

(4) As a result of the development of the communications industry it was no longer possible for the socialist countries to remain closed to information from the West, and

(5) The socialist regime lacked the shock absorbers which exist in the West that serve to mitigate conflicts between the people and the powers. Western countries do not only have democratic institutions such as free elections, but they also have other mechanisms, designed to absorb or dissipate public discontent.

The above mentioned is true but does not give adequate explanation of what the reasons are for the collapse of the socialist system in most of these countries, including the former Soviet Union. We agree with K. Ishihara that Chinese socialism 'has its own characteristics'⁷, described completely and precisely in his book, but China's case is different.

K. J. Koford, J. B. Miller and D. C. Colander emphasized on the 'three fundamental problems'⁸ in China, the former Soviet Union and Eastern Europe:

(1) Widespread shortages of goods, particularly consumer goods;

⁴ Ishihara K. - China's Conversion to a Market Economy, Tokyo, IDE, 1993. p. 1.

⁵ The Old World's New World. - op. cit., p. 3.

⁶ Ishihara K. - op. cit., p. 1-3.

⁷ Ishihara K. - op. cit., p. 3.

⁸ Koford J. K., J. B. Miller and D. C. Colander. - op. cit., p. 3.

(2) Very low quality of goods, and

(3) Relative scarcities and values of goods are unknown and the system cannot obtain this information. Attempts to decentralize decision making have created many new problems.

That is true, as well but, it is a very narrow and limited way to explain the essential problems of the collapse of socialist system (the Soviet political and economic model). We believe that vivid imagination is essential to understand thoroughly and undertake appropriate steps towards economic reform.

L. Abalkin⁹ stresses on three groups of reasons for the current economic crisis in the ex-socialist countries¹⁰.

(1) The old economic model was not changed on time. In the early 80's the Russian economy fell into crisis caused by economic disproportion, total monopolization and lac of effective incentives;

(2) Every reform in society initiates a crisis of the economic, political and social system;

(3) The appropriate strategy and tactics for the reform were not chosen and mistakes were made by undertaking the chock therapy change without any preparations. Every ex-socialist country is a specific case by itself, but allowing mistakes to slip is a common characteristics of all these countries.

No common theory existed to explain the causes of the crisis. Indeed sometimes it seemed that not only each economist but each person had their own favorite theory of the cause of crises in the economy. In our opinion it is possible to explain the present situation in the CEEC on the basis of the following general statements:

(1) From the global historical and political poing of view, when the outcome of the war translated into political decisions, these were based on the interests of just a few countries and therefore failed to reflect the objective situation, as well as the future development of the countries affected. That situation could not be sustained for a long-term historical period, because the objective development of the society of the respective country was hampered. In the case of Bulgaria, for instance, before WW2 we did not have completely developed capitalist ideological, political economic and social conditions and environment. The real evolutionary development had been stopped and another system (the system of socialism) was proposed which was more an utopia than reality even to this day¹¹. This aspect requires a more

⁹ Leonid Abalkin is director of the Institute of Economics (Russian Academy of Sciences).

¹⁰ History Development Forms a New Model of Society. - Interview with L. Abalkin in Sofia, 'Duma' (Bulgarian daily), June 23, 1993.

¹¹ At that time it was not clear what the outcome was of the socialist transformation before WW2 and what would be the future after the War in USSR and other socialist countries.

global approach related to the long-run historical development but it is beyond the scope of this paper.

(2) The role of so-called 'iron triangle' of politicians, bureaucracy and business to protect the society from catastrophe was too overwhelming. We should add the social sciences, which are usually servicing the 'iron triangle'. Very important for Bulgaria's case was also the external political influence.

Though it was clear that the ex-socialist economies had slowed down and despite the fact that a lot of scientists had come to this conclusion much earlier, the 'iron triangle' did nothing to change things, because they were drawing personal benefits from preserving the status quo.

(3) The modern theories of economical growth, the theory of crisis and economical function are very important issues for the fundamental explanation and understanding of the current economic events and causes of what already happened in CEEC during the last few years.

The theoretical economical doctrine in Bulgaria stressed on anti-crisis development of socialist economics. The economic 'quakes and tsunamis' (catastrophes) belonged to the so-called capitalist countries only. The Marxist theory of economic crisis and cyclical economic fluctuations is not relevant to socialist economies, which develop without crisis. This is nothing else but unproven political speculation. Additionally, either we do not analyze our economic reality properly or we do not have adequate and authentic economic evidence of the current practices.

There are too many causes to accept the possibilities of cyclical and catastrophic development of the society. In his fundamental book 'Principles of Geology' (1830-1833) Charles Lyell proclaimed two principles: gradualism and nondirectionalism. In his evolutionary theory Charles Darwin used the old Carl Linnaeus aphorism 'Natura non facit saltum'. These come from catastrophes and breaks of natural and social development. D. Worsh¹² blamed I. Newton and Ch. Lyell that their uniformism influenced negatively the economic thought and K. Marx had more right than A. Smith because the idea of catastrophes was more close to him (Marx).

The mathematical model of R. Thom's catastrophe theory¹³ about breaks in development was the subject of special attention of 'New York Times' (November 19, 1977), where the header page reported about the mathematical work of R. Thom. There are a lot of examples which prove the universality of this theory for both nature and society. Yukio Ohnuma underlines that 'catastrophes, however, have not been confined to natural events'¹⁴, with which the Japanese meet too frequently. Discussing the economic and political events and changes in contemporary Japan, he

¹² Worsh D. , The Great Hamburger Paradox, Forbes, 1977, 120, p. 166-167.

¹³ Thom R. , Structural Stability and Morphogenesis, Reading, Mass. 1975 (Published in French at 1972 in New York), 348 p.

¹⁴ Ohnuma Y. , Catastrophic Change in the Making. The Japan Times, June 28, 1993, p. 7.

stresses that 'as with other catastrophic events in Japanese history, when change does finally occur, it will be sudden and sweeping'.¹⁵

So far we do not have good instruments for prediction and management of catastrophic behavior of nature and society. But the required changes in social, economic and political systems must be produced and made because catastrophes will come inevitably. That is the case of CEEC, where it was not possible to predict when the 'critical mass' of social, economic and political pressures would cause the catastrophe.

Current Outlook for the Bulgarian Economy

The process of transition in Bulgaria began at the end of 1989 with more euphoric than real steps. In early 1991 (February) Bulgaria had a program to transform the country into a market economy. This program was intended to lead the country along a path of sustained growth and rising living standards. This, more political than economic program, combined the idea of new political order and democracy of Bulgarian society and old fashioned approach of economic and social security. The program was taken from another CEEC (for instance Poland, former Czechoslovakia) and adopted the so-called 'shock therapy' philosophy for radical economic reform.

The shock therapy was an action, aimed at an immediate result, beginning with price deregulation and liberalization, notably in retail trade, followed by the freezing or slowing the increase of wages, a stabilization and cut back of government expenditures (mainly inscientific sphere) and the tightening of the money supply. It is held questionable whether the total price liberalization is the correct solution when monopoly dominates almost all industries. In fact, many monopolistic corporations undertook an

outrageous act of cutting production, which occurred suddenly and simultaneously, thereby reducing the supply and raising prices.

On the macroeconomic side, the program relied on tight monetary, fiscal, and wage policies to prevent the price jump that resulted from price liberalization, from becoming embedded in hampering inflation rate, and to prevent the occurrence of large trade difficulties as a result of far-reaching trade liberalization. On the structural side, the program foresaw the gradual establishment of the institutions of a market economy.

Sustainable macroeconomic stability has not been attained. No progress in structural reforms and structural transformation of the economy has been achieved and no solution of the external debt problem could be found out. In short, much has been achieved in extremely difficult circumstances, but the most difficult part of the road is still ahead.

¹⁵ Ohnuma Y. , op.cit., p. 3.

As a result of many years of forced savings, macroeconomic imbalances in Bulgaria were large: budget deficit in relation to GDP in 1990 was almost twice as high than in a typical OECD country, and substantially higher than in Hungary, former Czechoslovakia, or Poland.

The Bulgarian economic reform could not achieve the macroeconomic stabilization targets set initially for 1991 and then postponed for 1992. There are substantial deviations between those targets and the results achieved in the most important quantifiable parameters, such as growth and structure of GDP, inflation, unemployment, budget deficit and domestic debt, balance of payments and foreign debt, real income and consumption.

The apparent equilibrium of the consumer market is due to the multiple price increases in consumer good and services combined with a sharp decline of real income. There are more goods in the shops, not because more of these have been produced, but because consumption is less. This places millions of people in difficult living conditions: 70% of the households earned income was at or below the social minimum level.

The following table summarizes the main economic indicators of Bulgaria and gives the expected values for 1996:

Table 1
GDP (Total, Agriculture, and Industry), Capital Investment, and CPI Rates of Growth: 1990-1996 (% change on previous year)

Indicators	1990	1991	1992	1993	1994	1995	1996
GDP	-9.1	-16.7	-12.4	-6.2	1.4	2.5	-2
Agricultural Output	-6	-0.3	-12	-18.3	6.8	15.4	...
Industrial Output	-16.8	-22.2	-15.9	-10.9	8.5	5.4	...
Capital Investment	-25.6	-21.9	4.3	-37.1	5.6	15	...
CPI	23.8	338.5	79.4	56.1	87.1	62.9	180

Sources: *Statistical handbooks and other publications*

After the optimistic results from the last year (1995), these were the views not only of our government, but also of some international economic organization, during 1996 a turn can be observed. The position for unstable and non-durable economic activity during 1995 when the rate of GDP reached 2.5% (previous year prices), the inflation December/ December was 33%, producer prices - 39%, but the annual indexes were twice higher.

The optimistic notes were strengthened by the higher share of the used manufacturing industry production capacity in comparison with the three years before - it reached 61% for 1995 (in spite that in the developed countries the level below 80% usage is considered as a symptom of an economic crisis). The hope came from the higher production rate and from the increase of the share of GDP in the private sector - 32% (official data for 1995). A decrease of unemployment was observed. The total level of the

labor efficiency during the same year decreased to 0,5% while in the industry it increases with 11.3%. Obviously the increase of the employed in the other sectors has influenced it, but parallel to it has smaller effect.

Bulgaria has signed an association agreement with Brussels similar to those the Community enforced earlier with former Czechoslovakia, Poland, and Hungary. It is a long-term process of restructuring the Bulgarian economy and liberalization of trade relations with EU. We have to create the required economic and political conditions as well. 'The more we help Eastern Europe improve its economic performance', said Jim Rolfe, director of economic studies at the Royal Institute of International Affairs in London, 'the more we help ourselves'.¹⁶

Still, it will be years before any country from Eastern Europe is likely to be accepted as a fully fledged member of the Community. David Roche, chief European strategist at Morgan Stanley International in London, said: 'The first big step has been taken: many more will follow in the coming years. Integration of Europe's two halves is to go forward on an accelerated path, and it is to go farther than was originally envisaged'.¹⁷ The plan of EU leaders calls for speeding up the reduction of tariffs and quotas that have blocked many of Eastern Europe's most competitive exports.

It is not realistic to expect very fast and full integration of the Bulgarian economy in the EC structures, at least in the foreseeable future. The old „Maastricht” EC model requires to be replaced with new one. Europe needs to develop a decentralized form of union than can harness its diverse identities.

For Bulgaria the most important task is not only to create a developed internal market, but also to produce for the neighboring countries. One opportunity is to encourage the economic cooperation within the Black Sea zone and Balkan countries, as well, without giving way to political considerations and history-rooted controversies.

The government has signed an agreement with European Free Trade Association (EFTA), which was to come into force from the middle of 1993. It provides for liberalization of trade over the next ten years. Austria, Sweden and Norway will continue to impose duties on Bulgarian textiles for the next six years only, while Austria and Sweden are to retain their duties on Bulgarian steel for another five years. All other Bulgarian industrial goods, and processed agricultural produce and fish, will be exported duty-free to EFTA countries and with no quota restrictions. Bulgaria will be a member of WTO this month.

The following is a table of the Bulgarian balance of payments:

¹⁶ Cit. from Redburn T., EC Opens Door to East European Nations, International Herald Tribune, July 24, 1993, p. 1.

¹⁷ Cit. from Redburn T., op. cit., p. 11.

Table 2
Bulgarian Balance of Payments: 1991 and 1995 (*USD mil.; cash basis*)

	1991	1992	1993	1994
Exports	3737	5093	3935	5110
Imports	3769	4609	3952	4682
Trade Balance	- 32	484	- 17	428
Transport (net)	- 14	- 32	- 89.8	38.2
Travel (net)	- 84	26	117.8	277.8
Investment Income (net)	- 28	- 76	95.6	- 28.9
Balance of Services (incl. Others)	- 114	- 76	- 7.9	- 94
Transfers (net)	69	43	164.1	117.0
Overall Balance (incl. Errors and Omissions)	45	400	86.8	411.4

Source: *The EIU Country Report, 2nd quarter 1993, p. 36 and Balance of payments 1995, BNB, Sofia, 1996, p. 28 - 29*

Unlike 1994 the trade balance for 1995 was positive, especially characteristic for the Bulgaria's trade with the Arab countries. It was lower but positive with the countries from OECD including those from the EU, while with the Central and East European countries it was essentially negative, especially with the countries from the former USSR and the countries from the Vishegrad group. The asymmetry of the trade with mineral resources and fuels was especially characteristic for the trade with countries from the former USSR. This year (1996) the import from Russia was the biggest, while for the export first in the list was those for Italy, followed by Turkey, Russia and Germany.

Direct foreign investments, loans and credit in Bulgarian economy are:

Table 3
Foreign Subsidies: 1991, 1992, and 1994, 1995 (*USDm*)

	1991	1992	1994	1995
Direct Foreign Investments	55.9	42.1	105.4	90.4
World Bank Credits	144.0	-	-	-
IMF Credits	385.6	217.2	334.0	-
EC Loans	192.5	172.2	85.8	-
Total Loans	722.1	389.4	419.8	-
Total Loans (net hard currency) for 1989	2139.0	x	x	x

Source: Angelov I. - *Break with illusions in Economy, 'Duma' (Bulgarian daily), June 25, 1993. and ballance of payments 1995. BNB, Sofia, 1996, p.29*

The conclusion of this table is: we do not receive enough foreign funding needed for the transformation of the Bulgarian economy. Additionally in the case of the so-called 'economic assistance' the situation is the same. The latest World Bank data shows that foreign investment share of total economy investment in Japan is 0.1%. In Bulgaria the share of foreign investment is at the same level, however the economic potential of the country and the economic crisis at present do not permit to use internal investment sources. At the same time this share is over 10% in Spain and Portugal, in England - 12.5%, in Hungary - 24.4%

From the beginning of 1996 (there were some symptoms at the end of the last year) the economic situation in the country deteriorate. The production decreases, incl. those in the private sector (in August for the first time) inspite the increase - 13% for the first seven months (1996). Near 30% of the firms in the public sector have losses in the first six months of the year. The production decrease 3% in the public sector.

93. mil. USD are the foreign investments for the first six months of 1996, while only for the second quarter they are 33 mil., which means a tendency of decreasing. Things become worse in the financial sector: the currency resources fall up to the critical minimum, the debt payment for this year is more than 1 bn USD (the next also over 1 bn USD), the rate of exchange rapidly climbed up. Near 500 mil. USD is our obligation for the third quarter - for October and near 168 mil. USD for the forth quarter of this year.

In the middle of September the budget incomes hardly exceed the half of those provided for the year - the budget deficit is 72 bn leva.

The difference between the richest and the poorest Bulgarians continue to increase. The proportion between the incomes of the 20th % richest to the 20th % poorest is 6.5 times in the end of the last year, while during 1996 it increases much more (it was 4.8 times during 1992). According the National Statistics Institute data the peoples' incomes fall with 23%. We are thinking about 8000 leva minimum wage, in the moment it is 4000 leva, while in the beginning of the year - 2400 leva. The most severe (not from meteorological point of view) and breadless winter is waited. The inflation for several months has over 20% month level, which was not for Bulgaria till now. The foods grow expensive three times for five months. There is not hope that the monthly inflation will decrease to a one-number level, especially after accepting the two-number monthly basic interest rate (25% per month). This would lead to decrease in the demand and falling down-

wards of the prices, but at the situation that has been created this effect can't be achieved.

From the 1st of October limit prices will be probably established for some food products (nine), but the Council of Ministry is not solved definitely that. The energy monopoly makes dollar based prices of energy resources without being clear what part of the costs can be publicly accepted and what part of them have dollar component. With the rising of the distrust in the banks and in the monetary state policy, the banking system was shaken more and all appeals were in vain. The promises for liquidation of the losing enterprises were inconsiderate and impetuous act. In order to ensure the deposits a rapid closing down sale is going to be done even of some military complex enterprises.

Transitions and Economic Reforms

Problems which CEEC meet now can be described as problems of transition and reformation. In our case in particular we have a transition of centrally planned authoritarian system of social organization (so-called 'socialist society') into real democracy and market economy. We can perceive that as a modernization and development of society. In view of this a lot of questions arise, concerning the political, social, and economic structure, the functioning and organization of the state, the new role of government and the other state institutions, and the necessary environment (infrastructure) for political modernization.

First of all it is important to answer the question about the historical chance and the real possibilities to make transition, and second, what should be the way to go and the stages of these reformations. Speaking about Bulgaria, we can point out that the country already had a lot of transition actions aimed at modernizing its society. We can begin with the Bulgarian society transformation at the time of the Ottoman Empire, after the liberalization of 1878, the period between the two World Wars, the post WW2 period and the present period of transition.

We can confirm that 'the term 'modernization' has found increasing acceptance among social scientists and historians to refer to the grand transformation that began in Western Europe at the end of the Middle Ages and that in our own day has engulfed the remotest countries'¹⁸. Sometimes several terms, like industrialization, Westernization, modernization, and transition are treated as synonyms, but their content and meaning have changed over time because, for instance, industrialization has a different

¹⁸ Rustow D. A. and R. E. Ward., Chapter 1, Introduction, In: Political Modernization in Japan and Turkey, Ed. by Robert E. Ward and Dankwart A. Rustow, Princeton, 1964, p. 3.

meaning in economic history. At the same time, in economics the concepts of growth and industrialization are frequently used, and sometimes they stand for progress as well. But development is a more adequate term for social change than 'progress'. Any change, of whatever sort and in whatever period of history, represents a 'development', and that word is therefore happily neutral.

Peter F. Sugar in 'Economic and Political Modernization in Turkey'¹⁹ distinguishes between 'some countries in which development occurred 'organically' and others in which it was 'induced'. The nations in these two categories have changed for different reasons, at different times, and in different manners'.

The process of development in Western Europe (so-called modern or Western society) was 'organically' established. It began in the late Middle Ages with the disintegration of feudal society and the revival of trade and urban life, and involved the growth of manufacture. The organic development then meant ²⁰:

- (1) A change in economic activities;
- (2) The emergence of a new force in society;
- (3) The establishment of the centralized state guaranteeing individual freedom and economic activity;
- (4) The establishment of constitutional government.

This entire development took centuries.

All recent 'induced' developments - from the time of Peter the Great to that of Nasser, Mao, and Nkrumah - have had as their immediate purpose the attainment of power comparable to that of the Western world. The sequence in this case is radically different for societies developing organically. In order of time 'induced' development requires²¹:

- (1) An outside stimulus, usually in the form of overwhelming power;
- (2) The emergence of a leader (or leaders) who seek to elevate their nation to a position of like power;
- (3) The creation of a new bureaucracy and a change in the political structure;
- (4) Economic change, planned and in part executed by the central government;
- (5) The emergence of middle class followed by a variety of further expressions of collective interest.

At present the ex-communist countries of Europe as well as the former Soviet Union are in a state of transition and these countries seek to

¹⁹ Sugar P. F., Chapter 4, In: Political Modernization in Japan and Turkey, op. Cit., p. 146.

²⁰ Sugar P. F., op. cit., p. 147.

²¹ Sugar P. F., op. cit., p. 149.

find a way out of the centralized command economy to a market system. In this sense the market can be regarded as a useful tool of society serving the market. In principle it is possible to introduce the market into socialist society, but in practice (the case and efforts of China) it is not so clear how to do that. Too many attempts have been done since the early 60's in CEEC, and much earlier in the former USSR. Abba Lerner (an American economist) met Leon Trotsky in Mexico City and convinced him in the merits of market socialism in 1938. He spent two days with Trotsky but did not convince him of market socialism's virtues²². Probably it is difficult to do that with us now.

Introducing the market means that there are institutions that have to be developed. It is important for a society with no accepted norms and laws regulating market behavior to develop these institutions. It is impossible to implement all required changes and reforms at one time. Some US economists have largely agreed on a solution to the economic problems of the CEEC being the establishment of an American style economy as quickly as possible²³. This position is not realistic. We already see the results of the shock therapy actions. Other US economists point out that 'these countries (the ex-communist countries) should find a 'middle way' that is based on the primacy of free markets, but includes considerable public ownership and a strong welfare state. It is a path similar to that of Sweden in some ways, to Germany in others, and to Japan in still others'²⁴.

The characteristics of economy must be consistent with the nation's history and cultural values. The various of Western capitalist economies, as well as the Japanese, had varied approach of transition to market economy and different economic institutions, related to their different historical experiences, cultural patterns, society's skills, educational levels and traditions, natural resources and surroundings. This is true in the case of any possible transition period of society. We have already identified the possible divergence from Soviet economic model of the development in the Bulgarian agricultural sector for instance, at the time of the socialist transformations after WW2.

CEEC have quite varied historical and other conditions, and so their transformation to market economy varies. For example, the Bulgarian society is not too much individualistic and does not have the strongly authoritarian and conformist tradition of the other societies. On the contrary - egalitarian and some kind of individualism can be more understandable. The Bulgarian society is a mixture of Slav (South Slavs and some

²² Koford J. K., J. B. Miller and D. C. Colandér. , op. cit., p. 1.

²³ Applebaum A. , Rapid Reform is the Solution., Wall Street Journal, December 24, 1990, p. 7.

²⁴ Koford J. K. , Why the Ex-Communist Countries Should Take the 'Middle Way' to the Market Economy, University of Delaware, Newark, 1991, WP No. 91-15, p. 1.

Russian, Polish and Czech Slavs kind of traditions), European (South East Europe - Balkan - Serbian, Greek and Romanian), and Middle East (Turkish and Arabic societies) cultures.

With regard to Bulgarian economic reforms we have to make the following statements²⁵:

First. The reform, as a one-sided monetary-oriented change, has been reduced to almost full price liberalization, significant shifts in monetary policy and partial changes in fiscal, income and foreign trade policies. There have been no systematic reforms, agricultural economic units have been destroyed with no new ones to replace them;

Second. There has been no satisfactory coordination among monetary, budget and income policies. The burden of the anti-inflationary restriction was unevenly distributed among the respective macroeconomic instruments;

Third. A large number of companies are in a difficult financial position with insolvency being widely spread and frequent;

Fourth. Bulgarian reform is being carried out in against an unfavorable external economic environment;

Fifth. Social fatigue from the reform is growing. A rather high price has been paid up so far: deep depression, high inflation, large unemployment, sharp fall in real income and consumption, growing uncertainty among people and lack of punishment for criminal offense and corruption.

The road to a fully functioning market economy (if it is clear what that means and in how many is functions) is long, and a change of the economic structure and economic behavior cannot be achieved overnight. The transition is difficult in any event, and Bulgaria has to cope with a number of circumstances that make the task even more difficult. Domestic reform efforts were made more difficult by the lack of experience with economic reform during the 1980's, a time when for example Hungary and Poland had already taken some steps towards the 'marketization' of their economies. At this time Bulgarians discussed about 'glasnost' and 'perestroika' philosophy, not in much free conditions and made nothing for real economic liberalization and transition to market (with the small exception of Decree 56).

On the basis of national sociology observations²⁶. In April 1992 and April 1993 the Institute of Sociology at the Bulgarian Academy of Sciences carried out opinion polls with the following results: in April 1993 46% of 1402 persons interviewed expressed a negative view on social changes and 7% - positive. The respective percentages for April 1992 were 31% and

²⁵ Angelov I. Et all., The Bulgarian Economy Up to 1995, Institute of Economics at the Bulgarian Academy of Sciences, 1992, p. 5-8.

²⁶ Transition risks, Interview with Nikolaj Genov. 'Duma' (Bulgarian daily), June 24. 1993.

14% of 1700 inquired persons. The major problem areas as ranked by the interviewers were: criminality (78%), economic situation (73%), jobs finding possibilities (64%), political resistance (45%), environment situation (44%), stratification of society into rich and poor (42%), etc. The same answers we can receive in 1996.

Different strategies for reform have been adopted in the CEEC. These variations may be classified on the basis of three somewhat overlapping criteria: speed, comprehensiveness and sequencing²⁷.

Speed of Reform

The choice here is between shock treatment and gradualism. It is more important to know what are the costs and benefits of discrete, sudden and large-scale change versus those of ongoing and piecemeal change. 'The case of gradualism has minimum short-run costs, but longer-run benefits will not be achieved... shock treatment is for these reasons, argued to be a more effective reform strategy'²⁸. This is true but only for economic reforms which do not involve political and social changes - typically for the reforms in CEEC in the past few decades. The economic reforms after the political changes in the early 90's in Bulgaria advanced with small steps and at a low speed of reformation. These reforms were carried out in this manner because they served a small part of the population, including the old Communist Party nomenclature. That was not a gradualist piecemeal policy of economic reform, but a chaotic movement from interests of one group to interests of another. The economic reform in Bulgaria virtually stopped. The first shock of price liberalization and restrictive monetary policy changed political gradualism. This had a high social cost and no benefits either in the short run or in a longer term basis.

Comprehensiveness of Reform

The speed and comprehensiveness of reform are positively related. The important issue highlighted by comprehensiveness relates to the reform priorities. If reform is not to cover all elements, which ones are more important? More important is a relative thing and it is closely related with sequencing of reform. Political and macroeconomic stability may be a precondition for economic liberalization and structural adjustment. One of the main reasons why economic reform stopped in Bulgaria has been political instability.

²⁷ Bird G. and H. Bird., *Economic Reforms in Eastern Europe: Central Issues in the Move to Market Economies*, In: *Economic Reform in Eastern Europe*, Edward Elgar, 1992, p.9.

²⁸ Bird G. and H. Bird., *op. cit.*, p. 9.

Sequencing of Reform

An important element of any transition is deciding what will come first. In any step-by-step approach there should be intermediate goals that can be achieved at various stages. Certain advantages should be clear at each stage. But an easy and generally agreed answer to this question is currently unavailable. The reform sequence usually conforms with political forces and their interests. The same time key question which remains whether governments can survive the transitional period. In general we do not have political, social and economic credibility.

For small countries foreign influence and assistance is more important. Economic reform in Bulgaria is being carried out according to traditional IMF models. It has a history of more than seven years. We are not sure that this is the best way for transition to a market economy in Bulgaria. It is becoming more and more evident that the road to economic reform, chosen in Bulgaria, is very expensive and no so short as originally expected.

There are also other, less painful roads, which require changes in the formula of the reform and the way of its implementation. The following steps are required ²⁹:

(1) Adopting a moderate macroeconomic restriction combined with full synchronization among monetary, fiscal, income and foreign trade policies for the rebirth of a non-inflationary or a low-inflation domestic consumption and investment demand;

(2) Selective stimulation with the help of macroeconomic instruments of certain sectors, industries, businesses and activities having demonstrated substantial comparative economic advantages, and for whose output there is domestic and especially foreign demand combined with accelerated infrastructure development;

(3) Reasonable acceleration of systematic and institutional reforms which should create a suitable economic and institutional climate for a subsequent recovery;

(4) Elaboration and implementation of state research, structural, market, ecological, regional, and social policy, of respective programs for supporting separate industries or regions, providing incentives and combining market automatism with reasonable state economic regulation.

The situation of the Bulgaria's transition to a market economy now is on the initial point before seven years, when the reform started, and from the some point of view the things are worse. What will be the next future it is difficult to say - probably it is necessary more political decisions, than economical ones.

²⁹ Angelov I. et all. , op. cit., p. 67-68.

Prof. dr Alexander Dimitrov

BULGARIA'S TRANSITION TO A MARKET ECONOMY

Summary

The transition of the post-socialist economies to a market ones is not possible without first genuinely reforming the political system. The change of the political system does not mean only new faced or replacing the old administration with another one with the same managerial approach. The solution is to demolish the old system and build a new one instead. If something is to be changed, we must first know what it is that we want to change and what will replace the old system.

Economically Bulgaria is a small open economy, but foreign exposure meant before very close orientation to the former Soviet Union and as well as CMEA, more than any other ex-socialist country in Central and East Europe. Bulgaria had more than four decades of centrally planned Soviet model type of development. Under this type of economic management Bulgaria pursued a strategy of rapid industrialization and transition from agrarian to industrial economy. After World War The Second, transformation was based initially on substantial financial and technological transfers from USSR, high domestic investment rates, and growing specialization in machinery exports, mainly into the large and protected CMEA market. Bulgaria was the country has made substantial economic progress.

The cost of these achievements, however, was very high: environmental degradation, low efficiency of production, wide budget deficit, a rapid buildup of external debt in convertible currency to more than 10 bn USD, a debt service which rose to almost four fifths of exports in convertible currency. Besides, growth strategy became difficult to sustain.

In our opinion it is possible to explain the present situation in the CEEC on the basis of the following general statements:

(1) From the global historical and political point of view, when the outcome of the war was translated into political decisions, these were based on the interests of just a few countries and therefore failed to reflect the objective situation, as well as the future development of the countries affected.

(2) The role of so-called „iron triangle” of politicians, bureaucracy and business to protect the society from catastrophe was too overwhelming.

(3) The modern theories of economical growth, the theory of crisis and economical function are very important issues for the fundamental explanation and understanding of the current economic events and causes of what already hapened in CEEC during the last few years.

The process of transition in Bulgaria began at the end of 1989 with more euphoric than real steps. In early 1991 (February) Bulgaria had a program to transform the country into a market economy.

The shock therapy was an action, aimed at an immediate result, beginning with price deregulation and liberalization, notably in retail trade, followed by the freezing or slowing the increase of wages, a stabilization and cut back of government expenditures (mainly in scientific sphere) and the tightening of the money supply. It is held questionable whether the total price liberalization is the correct solution when monopoly dominates almost all industries. In fact, many monopolistic corporations undertook an outrageous act of cutting production, which occured suddenly and simultaneously, thereby reducing the supply and raising prices.

The Bulgarian economic reform could not achieve the macroeconomic stabilization targets set initially for 1991 and then postponed for 1992. There are substantial deviations between those targets and the results achieved in the most important quantifiable parameters, such as growth and structure of GDP, inflation, unemployment, budget deficit and domestic debt, balance of payments and foreign debt, real income and consumption.

Problems which CEEC meet now can be described as problems of transition and reformation. In our case in particular we have a transition of centrally planned authoritarian system of social organization (so-called „socialist society) into real democracy and market economy. We can perceive that as a modernization and development of society. In view of this a lot of questions arise, concerning the political, social, and economic structure, the functioning and organization of the state, the new role of government and the other state institutions, and the necessary environment (infrastructure) for political modernization.

First of all it is important to answer the question about the historical chance and the real possibilities to make transition, and second, what should be the way to go and the stages of these reformations. Speaking about Bulgaria, we can point out that the country already had a lot of transition actions aimed at modernizing its society. We can begin with the Bulgarian society transformation at the time of the Ottoman Empire, after the liberalization of 1878, the period between the two World Wars, the post WW2 period and the present period of transition.

Different strategies for reforme have been adopted in the CEEC. These variations may be classified on the basis of three somewhat overlapping criteria: speed, comprehensiveness and sequencing.

For small countries foreign influence and assistance is more important. Economic reform in Bulgaria is being carried out according to traditional IMF models. It has a history of more than seven years. We are not sure that this is the best way for transition to a market economy in Bulgaria. It is becoming more and more evident that the road to economic reform, chosen in Bulgaria, is very expensive and no so short as originally expected.

Академик Александар Димитров

ТРАНЗИЦИЈА БУГАРСКЕ ПРИВРЕДЕ У ТРЖИШНУ

Резиме

Транзиција постсоцијалистичких привреда у тржишну није могућа без претходног потпуног реформисања политичког система. Промјена политичког система не значи само нова лица или замјену старе администрације новом, са истим начином управљања. Право рјешење је раскид са старим системом и изградња сасвим новог. Уколико желимо нешто да промијенимо, најприје морамо знати шта желимо да промијенимо и шта је то што ће замијенити стари систем.

Привредно, Бугарска је имала недовољно отворено тржиште, али је спољни аспект значајно веома блиску повезаност са претходним Совјетски Савез и СМЕА, много више него што је то био случај са другим бившим

социјалистичким земљама Централне и Источне Европе. Бугарска је више од четири деценије примјењивала совјетски модел развоја са централним планирањем. Са оваквим начином управљања привредом, она је примијенила стратегију убрзане индустријализације и транзиције из аграрне у преваходно индустријску привреду. Послије Другог сјетског рата, трансформација је првенствено била заснована на значајним финансијским и технолошким трансферима из СССР-а, високој стопи домаћих инвестиција, и растућој специјализацији у извозу машина, углавном на велико и заштићено СМЕА тржиште. Бугарска је тада направила значајан привредни раст.

Цијена тога раста била је, међутим, веома висока: деградација животне средине, ниска продуктивност и ефикасност, велики буџетски дефицит, убрзани раст спољњег дуга у конвертибилној валути од више од 10 милијарди USD, сервисирање иностраног дуга које је нарасло на скоро четири петине извоза у конвертибилној валути. Осим тога, постало је веома тешко одржава ти стратегију раста.

По нашем мишљењу, могући је објаснити садашњу ситуацију у СЕЕС на основу следећих општих тврдњи:

(1) Са глобалне историјске и политичке тачке гледишта, када је исход рата преведен у политичке одлуке, ово је било засновано на интересима само неколико земаља и стога није одражавало објективну ситуацију, као и будући развој тих земаља.

(2) Улога тзв. „гвозденог троугла” политичара, бирократије и бизниса у заштити друштва од катастрофе била је увелико превазиђена.

(3) Савремене теорије привредног раста, теорија кризе и функционисања привреде веома су значајне у циљу фундаменталних објашњења и разумијевања текућих економских догађања и узрока онога што се већ десило у СЕЕС у току посљедњих неколико година.

Процес транзиције је у Бугарској отпочео крајем 1989. године са више еуфоричних него реалних потазе. Почетком 1991. (у фебруару) Бугарска је имала програм трансформације земље у тржишну економију.

Шок-терапија је предузета са циљем добијања тренутних резултата, тако што се почело са дерегулацијом цијена и њиховом либерализацијом, нарочито у домену трговине, што је праћено замрзавањем или успоравањем раста зарада, стабилизацијом и смањењем јавне потрошње (нарочито у дијелу финансирања науке) и држањем понуда новца под контролом. Овдје треба нагласити да је врло дискутабилно да ли је потпуна либерализација цијена право рјешење када су монополи заступљени у готово читавој индустрији. У ствари, многе монополистичке корпорације су предузеле неочекиван потез - смањење производње. До њега је дошло одмах и истовремено, тако да је смањена понуда, што је неминуовно довело до пораста цијена.

Бугарска економија није могла да достигне циљеве макроекономске стабилизације првобитно планиране за 1991, а затим пролонгиране да се реализују у 1992. години. Постојало је битно заостајање резултата најзначајнијих квантитативних параметара, као што су раст и структура бруто националног производа, инфлација, незапосленост, буџетски дефицит и домаћи дуг, платни биланс и инострани дуг, реални доходак и потрошња.

Проблеми са којима се СЕЕС данас сусреће могу се описати као проблеми транзиције и реформе. У нашем случају посебно, имамо транзицију централистички планског ауторитарног система друштвеног уређења (тзв. „социјалистичког друштва”) у стварну демократију и тржишну економију. То можемо разумјети као модернизацију и развој друштва. У том смислу појављују се многа питања, која се односе на политичку, социјалну и

економску структуру, функционисање и организацију државе, нову улогу владе и других институција државе, и неопходно окружење (инфраструктуру) за политичку модернизацију.

Прије свега, важно је одговорити на питање о историјској шанси и реалним могућностима за реализацију транзиције, и друго, на који начин и са којим фазама треба извести ову реформу. Када говоримо о Бугарској, морамо нагласити да је та земља већ предузела више транзиционих радњи у циљу модернизације свог друштва. Можемо почети трансформацијом бугарског друштва од времена Отоманске империје, па преко либерализације 1878, периода између два свјетска рата, периода послје Другог свјетског рата и садашњег периода транзиције.

У СЕЕС-у су прихваћене различите стратегије реформе. Ове варијације се могу класификовати на основу три критеријума који се у извјесној мјери поклапају.

За мале земље су важни страни утицаји и помоћ. Економска реформа је у Бугарској изведена у складу са традиционалним моделима ММФ-а. Она траје нешто више од седам година. Нијесмо сигурни да је ово најбољи начин транзиције у тржишну економију. Постаје све очигледније да је пут економске реформе, који је одабрала Бугарска, веома скуп и не тако брз како се првобитно очекивало.

