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OP24

INTERDEPARTMENTAL PROJECT
ON STRUCTURAL ADJUSTMENT

Occasional Paper 24

C. Rock

Employment and privatization in Bulgaria's reform

IL OF
International Labour Office Geneva

Interdepartmental Project on Structural Adjustment

The aim of the Interdepartmental Project on Structural Adjustment is to strengthen ILO policy advice in relation to structural adjustment policies in order to make those policies more consistent with ILO principles and objectives.

The project investigates various options to give a different focus to adjustment policies, emphasizing major objectives as equitable growth, improved human resource development and social acceptability and it tries to establish how various ILO policies and policy instruments can contribute to such a different focus of adjustment policies.

The range of policy instruments encompasses labour market regulation, social security, wages policies, training policies, industrial relations as well as the employment and income effects of monetary, fiscal and price policies. Greater involvement of the ILO in the area of structural adjustment needs therefore to reflect the interdisciplinary nature of the adjustment problem by combining activities from different departments in the ILO.

During the 1992-93 biennium, the project concentrates on developing policies for the following five main areas:

- the role of the public and private institutions in structural adjustment;
- the role of fiscal policy in generating employment and favouring equitable growth in a process of adjustment;
- the role and function of compensatory programmes and social safety nets during adjustment;
- public sector adjustment, including issues pertaining to privatization;
- the role and function of the social partners in the adjustment process.

Further information can be obtained from the Project Manager (Rolph van der Hoeven) or the Project Officer (Andrés Marinakis).

Employment and privatization in Bulgaria's reform

Note: Occasional Papers are preliminary documents circulated in a limited number of copies solely to stimulate discussion and critical comment.

International Labour Office Geneva

April 1994

ISBN 92-2-109492-8

First published 1994

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. A catalogue or list of new publications will be sent free of charge from the above address.

Printed by the International Labour Office, Geneva, Switzerland

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1. Historical background, 1944 - 1990 [1]

Although it had its own communist party even before the advent of the Russian communist party, after World War II Bulgaria became a model of emulation of the Soviet economic and political system. It developed a strongly centralized economic system, collectivized agriculture, nationalized all industry, tolerated little open dissent, and in many other features mimicked the USSR system during the 1944-1989 period of communist rule in Bulgaria.

During the first decades after the institution of the communist regime in 1944, Bulgaria's rate of economic growth was quite good by world standards. This early economic strategy was based on extensive development (increased inputs) and a high rate of investment. Investment was not, however, targeted almost entirely on industrial development as in the early Stalinist model. Agriculture had long been economically important and it received a more reasonable level of investment than in the Soviet Union's early decades. The result of the more balanced development is even evident today in the amenities visible in many villages in much of the countryside (Lampe, 1985).

Once the potential labour supply was largely absorbed, and after the creation of a classic mid-20th century style industrial structure, an intensive development strategy (labour-saving) was required. This transition was never completely successful in Bulgaria's over-centralized system and the growth rate slowed measurably in the 1970s. Moreover, Bulgaria was exporting a sizeable quantity of its output to the other CMEA countries and even in this protected "ruble market," buyers complained repeatedly about the poor quality of Bulgarian products.

During the 1980s the Bulgarian economy began to more obviously exhibit other weaknesses, the most important being its continued resistance to attempted reforms aimed at improving labour and enterprise productivity. The party repeatedly tried to reform enterprise and incentive structures, most recently in both the early and late 1980s, but this had relatively little impact on improved quality or efficiency.

Since early in the communist period, the regime had prided itself on guaranteed employment for those who wanted work. Along with this, a general levelling of wages provided few material incentives for harder or better work. The supply side contributed to these reduced incentives, with the constant shortages of attractive goods reducing incentives to acquire any additional money income. Individual money income increased slowly based on sector of employment, qualifications, and job tenure, but these steps were administratively set and interpersonal variation in income remained relatively small. Bulgaria was a sellers' market, but without the credible incentives which would stimulate producers to significantly enlarge their output or quality. There was little in the system (outside of communist party-related careerism or the risky black market) to provide material incentives for personal initiative and dedicated hard work. The stagnation in economic development and the

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[1] This paper has benefitted greatly from the insights of many Bulgarians during 1990, 1991, 1992 and 1993. Ministry of Labour and Social Affairs, Ministry of Trade, Ministry of Industry, Central Statistical Office/Sofia, CSO/Pernik, CSO/Pleven, Center for the Study of Democracy Project Team, Institute for Social and Trade Union Research, Podkrepa Research Institute, CITUB, Institute of Economics, Institute of Sociology, State Privatization Agency, CUWPC, CCU, Bulgarian Chamber of Commerce, Bulgarian Industrial Association, Institute of Economics, Institute of Sociology, Office of Advisor to President.

difficulty of stimulating change or economic progress increasingly became a subject for discussion in the official media.

Foreign technology, generally from the west, was seen as one fix which, in turn, required hard currency. The USSR helped in the early 1980s by delivering a surplus of fuel which the Bulgarians processed and re-exported. The Bulgarians also tried increasing their exports of arms to provide hard currency for purchasing foreign capital goods. The embargo on certain imported items required costly subterfuge to avoid Western restrictions — especially electronics and any potentially arms-related equipment. The government also engaged in a rather massive hard currency borrowing programme in the middle and end of the 1980s. This did allow investments to proceed, and it maintained real consumption levels, but it also doubled the foreign debt of the country by the end of the decade. This consumers' **sop** did not stop the winds of perestroika and glasnost from blowing more strongly, even through the resorts and convention centres of the communist party.

At the end of the decade the communist leadership had turned from their past antagonism to non-state-owned enterprise and were promoting the development of new cooperative businesses engaged in production activities. In 1987-88, they re-legitimized and re-established a primary value for this previously "second class" form of socialist enterprise (Meurs and Rock, 1993). In a decree at the beginning of 1989, *de facto* private, capitalist "citizens' firms" were made formally legal, although still under the general guiding framework of the central planning authorities.

These various measures were too little and too late to protect the traditional leadership from the effects of the upheavals throughout the central and eastern European countries in 1989. Long-time leader Todor Zhivkov was removed from the Communist Party Central Committee along with his strongest allies in November 1989. The party named a new leader and proclaimed its intention to lead the country towards a more market-driven (socialist) economic system. Nevertheless, opposition to the Communist Party as a whole mounted in the weeks thereafter. Ultimately the communists gave up their monopoly position in political life under the pressure of the now fully open and rapidly growing Bulgarian opposition movement. Negotiations led to the first multi-party elections since World War II in June 1990. The Bulgarian Communist Party renamed itself the Bulgarian Socialist Party and the various factions within it came together for the elections, in the face of a broad unified anti-communist coalition. The renewed BSP managed to win a majority of the seats in the constitutional Grand National Assembly in the two-part (by district, by proportion of total) election. The opposition, the Union of Democratic Forces (UDF) refused, for the first six months after the election, to engage in a coalition government with the former communists, whatever they might call themselves. For the first year after November 1989, a few pieces of legal economic reform were produced. Many of these laws would be substantially revised later.

Finally a governmental crisis was precipitated — due to continuing opposition protests, plus the catalyst of a near-general strike in December 1990. The prime minister resigned and a new government was formed with the key ministries dealing with economic policy (Finance, Industry) in the hands of people who were sympathetic to the opposition UDF movement, and who promised to move rapidly ahead with the transformation of the Bulgarian economy.

Bulgaria, unluckily, had chosen a singularly unfavourable moment to begin its transition towards a market economic system. Externally, the picture was not bright. The world economy continued to have sluggish growth and few countries enjoyed the prospect of opening their markets to the emerging democracies of Eastern Europe. The European Community, to whom the Bulgarians naturally looked, was preoccupied with the 1992 Single Market debates, legislation and rule-making. The formerly integrated ruble common market (CMEA) was in the early stages of what would become an even more profound unravelling. This would have a very severe impact on Bulgaria. Three quarters of Bulgaria's total exports and imports had been directed to the CMEA countries with more than half of total exports going to the USSR alone.

In addition, Bulgaria was externally dependent for two-thirds of its energy needs (mainly fuels and electricity). The collapse of the quasi-barter trading mechanism for some goods in the ruble market meant that Bulgaria was soon to pay world market prices for these costly energy items. Safety concerns at the Bulgarian nuclear energy reactor site at Kozloduy on the Danube have caused shutdowns and cancellation/postponement of future nuclear reactor energy production. This continuing problem, coupled with the non-delivery of electricity by the former republics of the USSR, disrupted electricity supplies in Bulgaria leading to rolling, phased electrical blackouts during the winters of 1990-91, 1991-92, and to a lesser extent, 1992-93.

Political events also have been disruptive of economic revival. The bloody December 1989 revolution in bordering Romania may have scared off some potential early investors from neighbouring Bulgaria in a guilt-by-proximity effect. The Gulf War and the embargo on Iraq had a negative impact. Bulgaria exported arms, food, and other goods in exchange for oil, and Iraq was a net debtor to Bulgaria at the time its assets were frozen in foreign banks.[2] Bulgaria also had a significant export market in the Middle East which was disrupted by the war. The continuing Yugoslav crisis and current civil war has disrupted trade and tourism in the Balkan area.[3] It also made foreign investors more wary of investment in any country in the Balkans.

The previous regimes in Bulgaria left a legacy of the large foreign debt, which by the end of the 1980s was more than US$1,000 per capita. Bulgaria has no large expatriate community living in the west which might help promote the idea of cancellation of at least some of this burden (as happened in the case of a sizeable portion of the Polish debt, much due to the lobbying efforts through Polish expatriates in Western Europe and the United States). Moreover, the foreign debt was largely owed to foreign banks and not governments, making debt relief even more unlikely. The "lame duck" government following Zhivkov's demise, could think of nothing else than to unilaterally declare a moratorium on debt servicing, which made trade credit nearly impossible to find abroad. This would further hinder any efforts to redirect Bulgaria's export trade to new markets.[4]

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[2] Political events have hurt Bulgaria even more than western creditor countries: the other major debtors to Bulgaria include Russia and the other former Soviet republics, Libya, and Vietnam.

[3] The exact impact is not measurable and some trade and transport routes have been redirected through Bulgaria. Current (1993) estimates for ongoing annual costs of the Yugoslav embargo range up as high as US$1 billion, or a quarter of current annual exports.

[4] The foreign debt problem continues through the present, although attempted resumption of interest payments and, in late 1993, an apparent settlement with western creditors involving effective debt reduction, indicates easier trade arrangements in the future.

The state budget was in gross deficit for a series of reasons, including the fact that the previous government had awarded pensioners and the agricultural sector large fiscal rewards prior to the 1990 elections. There were many loss-making state and municipal enterprises directly subsidized from the budget. Managers at state-owned enterprises felt little pressure to hold down costs, including compensation, since they felt that the government would ultimately cover any wage costs that were agreed to.

All together, these circumstances placed unfavourable constraints on the economic reformers taking office. In better circumstances the reforms would have been painful enough; unfortunately, the degrees of freedom for making changes were severely reduced.

2. Macroeconomic policies and results in the post-communist period

2.1 The radical liberal period and its effects: 1991-1992

During 1990 there had been much discussion on the necessary economic reforms: their nature, the speed of change, the sequencing, and the likely effects on the economy. During this year of political stalemate, the economy slid into recession, with GDP falling by at least 10 per cent although visible unemployment fell much less by the end of 1990 (approximately 1.5 per cent of the labour force). The external debt crisis and the moratorium on servicing in March 1990, persistent industrial unrest, and the suspicion that well placed people were engaged in robbing state assets all contributed to the consensus that some kind of drastic action was called for.

Privatization was declared a priority of the new team of ministers which took over in December 1990. During the course of 1991, the Council of Ministers fully expected to be able to carry out the transfer of a large number of state assets to private hands. The government did, within a few months, enact some measures to further liberalize private commerce and to permit the sale of certain state enterprises and other state properties. Nevertheless, privatization of state enterprises never really developed during the year. Macroeconomic stabilization policies, both domestic and external, turned out to be the major economic policy preoccupations of the government during much of 1991. The severity of the economic decline worsened continually during the year, and even pessimistic expectations about the potential problems frequently proved to be over-optimistic.

The government worked out its stabilization programme in close coordination with the International Monetary Fund. The IMF would provide stand-by financing mainly to support the government's efforts to avoid a balance of payments crisis and to keep the currency (lev) exchange rate stable while fighting domestic inflation. The IMF was also asked for compensatory and contingency financing to help with the sharp rise in import prices of oil and in case of adverse developments in the economy.

The main goals of the programme in 1991 were: (i) stopping the decline in output; (ii)reducing inflation; and, (iii) reducing the external deficit. The stabilization programme had five parts: (a) price reform to reduce the excess supply of money savings ("monetary overhang"); (b) exchange rate reform into a unified rate to allow freer and more market price-based trade; (c) limiting money income growth, and effectively reducing real wages; (d) reducing the government deficit and keeping within strict limits in the future; and (e) limiting credit expansion, mainly through increasing the interest rate ("Letter of Intent of February 1991," 1992).

The government decided to control inflation and neutralize any excess money savings through a Polish-style price "shock" plus a strict monetary policy reform. At the start of February 1991, most prices were freed from direct state control. A relatively small number of prices were kept under state supervision, including some basic consumer goods. Accompanying the price liberalization "therapy" was a rise in the base interest rate to 45 per cent by the effective central banker, the Bulgarian National Bank. The government wished to move prices towards their market clearing levels while simultaneously restraining credit growth (that is, money growth through the banking system) in order to hold down medium- and long-term inflationary pressures.

The economic policy makers had two "nominal anchors" to hold down the potential explosive growth of prices (AECD, June 1992). First was the credit anchor. Controlling credit expansion involved using a very high interest rate and other restrictive policy measures available to the central bank as supervisor of commercial banks (reserves, restricting commercial bank access to central bank refinancing through mandatory limits on new credits expansion).

The second "anchor" was to be fixed on the growth of incomes. First, however, on 1 February 1991, money wages in the public sector were raised by 65 per cent to "partially compensate workers for the impact effect of the price reform." The government planned to continue to limit the growth of the total money compensation (the nominal wage bill) of each state enterprise or other unit. The growth in this aggregate was to be less than the rise in prices. Hence real wages were expected to decline during much of 1991, although they might recover somewhat if the economy picked up in the second half of the year. Facing this wage bill growth constraint, state enterprises were expected to "shed excess labour, so as to enhance productivity." The government's letter of intent to the International Monetary Fund also mentioned that pensioners would be compensated for the price rises and that the government had tentatively budgeted increased monies for labour market policy measures such as unemployment insurance payments and retraining programmes. This would be largely financed through an increase in enterprises' contributions to the unemployment fund (*BNB News Bulletin*, 1992a, pp. 10-12).

The programme envisaged creating "hard budget constraints" on state enterprises through these fiscal and monetary measures. The very large Bulgarian "firms" (big multi-establishment consortia) were to be further de-monopolized. Ideally this deconcentration was to occur only when it was organizationally possible and when such a division into parts did not contradict the economic rationality of maintaining a fully integrated technical production process. State enterprises could raise prices (within certain limits of cost increases and profitability), but would not necessarily find any or the same amount of subsidies forthcoming when requested. Enterprises would have to be frugal in the use of bank credit, since the cost of borrowing was so high. Foreign borrowing was no longer available as an option. The credibility of the government was on the line as to enterprise failure. The ultimate verification that a hard budget was actually in place would be the fact that actual enterprises closed when they could not pay their bills.

State enterprises had limited options to offer personnel to stimulate labour productivity, since the size of each establishment's total wage bill was limited by the government. The government was assuming that the state-owned enterprises were overmanned. Thus, limiting the growth of the total nominal wage bill meant that real wage increases could only come if some personnel were dismissed. The government presumed that this labour shedding process would naturally lead to productivity increases by the remaining workforce. In the government's eyes, thus, the reduction in force at state enterprises, did *not* necessarily imply a proportionate fall in output produced.

A third anchor mentioned for the adjustment package, the exchange rate (AECD, June 1992), was not available for the policy makers, due to the moratorium on debt servicing and problems with adequate hard currency reserves to credibly defend any particular exchange rate which came under pressure from money traders. Also, the development of foreign trade was quite uncertain, and the financing arrangement with the IMF was being relied on to deal with potential balance of payments problems.

Besides stabilization (control of inflation with liberalized pricing), a general goal of the programme was to impose a credible hard budget constraint on the quasi-autonomous state-owned enterprises (SOEs). The possibility of economic failure was to stimulate managers and workers in the SOEs to respond to market incentives. The enterprises did, in fact, face a harder constraint than before, but there was a lack of consistency in its application to specific enterprises and sectors. In addition, there were means of escaping the budget constraint. Loss-making enterprises were able to get credits from the banking system to continue operations. There was an increase in non-serviced debt in the non-bank sector. Enterprises extended each other business credit and failed to pay it off in a timely fashion. Thus there was a situation of generalized insolvency in the state-owned enterprise sector by the end of 1991. According to one group of analysts, the main groups which were responding to market incentives were those involved in real estate transactions and private business traders; the managers and workers of the SOEs were still acting much as they had under the former planning system (AECD, June 1992).

The macroeconomic stabilization package in 1991 and 1992 had only mixed success, even in terms of its own major goals. The price liberalization led to a much sharper rise in prices than anticipated, especially in the consumer price index. After the initial "shock", inflation continued to be seen as a problem, running at 3-4 per cent per month.[5] The external deficit was less problematic, even though the net foreign debt continued to grow through the accumulation of unpaid interest. The exchange rate reform was reasonably successful, with the Bulgarian lev remaining quite steady throughout 1992. Foreign goods began to come into the Bulgarian market and sell at world market prices. At the retail or street-level perspective, "real" relative prices for goods, both foreign and domestic, increasingly appeared. However, real aggregate consumer demand also collapsed. The "monetary overhang" was eliminated by the large inflationary surge in the first half of 1991. This inflationary shock immediately reduced real incomes sharply, much more so than the policy makers and foreign advisors had anticipated.[6]

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[5] Producer prices rose much less rapidly than did retail prices. This gap between consumer and producer prices can be interpreted in various ways. It is seen by one analyst as indicative of the lack of adequate changes in relative prices facing producers (Pamouktchiev, 1993) while another (Miller, 1993) thinks it may show that the development of the private (retailing) sector is more rapid than other statistics can measure.

[6] The stabilization package's goal of limiting the rise in money income had a relatively strong effect for most of the first part of 1991. Aggregate real wages fell by two-thirds (compared to the end of 1990) immediately following the price liberalization of February 1991. They recovered to more than 40 per cent (again, compared to the end of 1990) by the end of 1991 due to the impact of collective bargaining settlements beginning in the fall of 1991. Then, aggregate real wages returned to only a third of 1990 levels, in the middle of 1992. The severity of the decline in real wages was unexpected, and was due to the unanticipated large and continuing increases in prices. In the wake of the price shock, average per worker real wages fell by two-thirds in February and March 1991. Following this, they increased slowly for several months, then increased sharply at the end of 1991, but fell back in 1992, so that by mid-1992, the average real wage was about 50 per cent of its level in 1990. Given the sharp price rises in 1991, and the steady month-to-month inflation continuing in 1992, average money wages had large increases, but obviously, generally lagging behind the inflation rate during 1991-1992.

The expansion of bank credit after February 1991 was sharply curtailed, at least in real terms (Avramov, 1992, pp. 4-11). Despite the fact that the total amount of loans by banks only grew slowly, most of the borrowing from commercial banks was by state enterprises, and most of this was to finance current operating costs, rather than long-term investments. As an additional means of escaping financial constraints, enterprises, in essence, extended each other trading credit. Thus the basic insolvency of some enterprises (especially manufacturing) was spread to most or perhaps virtually all state enterprises involved with the loss-making sectors.

The market bankruptcy constraint was lifted in other ways. Not only did many state-owned enterprises delay paying each other for delivered goods, they also delayed payment of interest to banks and ignored deadlines for taxes due to the government treasury (ibid., pp. 27-32). State enterprises also frequently told private domestic producers (supplying inputs) that they just had to wait until the enterprise had the cash to pay them for the orders or services already delivered.

Often they were not paid, since the state enterprises producing final goods saw the rapid shrinkage in consumer demand. This plus other uncertainties led to great disruptions in production. Output fell continuously throughout the period.[7] There were inadequate automatic stabilizers in the emerging market system. The main government expenditure (social security) fell in real terms at the beginning of the reforms. Pensioners are an important group in the Bulgarian economy. The total numbers of pensions are large, equalling almost half the size of the labour force.[8] Their large number also gives them political influence; they have the potential to form a sizeable economic interest group/voting bloc. The costs of social security (mainly pension payments) represented approximately 30 per cent of the consolidated national budget.[9]

During this period of stabilization, several other factors need to be kept in mind when discussing personal incomes in Bulgaria. If one looks at the average household income (via aggregated data as well as household surveys), wages represented a declining share of total household money income, falling from about 54 per cent to under 50 per cent. The other major change in shares of household money income, from beginning to end of this period, is that income from borrowing disappears (from nearly 10 per cent to almost none) while interest income as a share of the total rises sharply (from almost nothing to well above 10 per cent). Home production of food may have partly compensated for the increasing

[7] The number of employed (including estimates of the private sector) dropped by more than 20 per cent between 1989 and 1992. The rate of unemployment did not register this drop since the average annual labour force decreased by 15 per cent in the 1989-1992 period. More than half a million workers disappeared from the measured labour force in the two year period.

[8] Some pensioners receive more than one pension depending on their previous work affiliations. Note, also, that some proportion of recipients of pensions continue to work for money incomes.

[9] Initially, the average real pension fell less precipitously than did real wages after price liberalization in February 1991. However, since the beginning of widespread decentralized collective bargaining in the fall of 1991, the average real purchasing power of a pension has dropped below that of average real wages (using 1990 as the base year for the relative changes). By spring of 1992, average pension payments could buy only one-third of the goods and services which the average wage could.

proportion of household budgets which were going for food purchases, especially in the months following February 1991.[10]

2.2 Moderation and reassessment: 1992-1993

The liberal reforms' apparently severe impact on employment and real incomes contributed to a increasingly vociferous disaffection with the liberal government by the middle of 1992. The main attacks came from the opposition parties, pensioners, and trade unions. The Ministers of Finance and of Industry bore the brunt of the criticisms and eventually the government decided to make a concession. The Minister of Industry was replaced in the early summer of 1992.[11] The UDF government again promised more rapid progress in privatization and in legislation clarifying the ground rules for the market economy. The government also blamed the old guard, the "reds" who were supposedly working to undermine the sincere efforts of the anti-communist liberals in power.

The government promised to continue on the difficult path of creating a "normal" economic system. The government leaders argued that there was no alternative to their programme, claiming that this was self-evident from the support given its policies by the most knowledgeable and authoritative international agencies (the IMF and the World Bank). Only the ideologically possessed who yearned for the old system and its inequities denied the obvious. The continuing deterioration of the production side of economy, the lack of visible progress in privatization, and the difficulties of balancing the demands of all the diverse elements making up the UDF-led coalition finally provoked a governmental crisis and the dissolution of coalition. A vote of no-confidence brought the downfall of the UDF government. The more moderate president, Zhelyu Zhelev, was constitutionally led to ask other parties to try to form a new coalition government at the very end of 1992.[12] After much difficulty, a well-known intellectual, the academic Lyuben Berov, was made prime minister.

The new government, although taking office almost by default, was implicitly supported by the BSP (socialists) and the MRF (ethnic minority-linked) parties, and later by a renegade group of members of the UDF. The new government had to engage in a laborious set of negotiations in order to name ministers and staff ministries. Berov and the new Council of Ministers submitted its first programme at the beginning of February 1993. In its broad outlines, the programme differed little from that of the previous government. It emphasized the need to move rapidly to create the measures and legislation necessary for an accelerated transition to a market economy. It promised to move more quickly on passing specific laws

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[10] Unreported income (from consumption and sale of products of farms or vegetable gardens; from unmeasured private sector activities) may represent another 25 per cent of household disposable income (Avramov, 1992, pp. 16-18). The average household budget allocated 36 per cent to food in 1990, while in 1991, expenditures on food increased to 47 per cent of the total allocation (CSO, 1992, p.72).

[11] In fact, the ministry was in charge of both trade and industry. The concession was not admitted as such by the Prime Minister since it took place with a separation of these two functions into two new ministries: industry and trade. In the event, the Ministry of Trade underwent a wholesale personnel rearrangement and restaffing, as the government used the occasion to purge and demote those considered "hostile" staff. Needless to say, this led to some delays in ministry operations as new staff needed some time to learn about their new responsibilities.

[12] Of the three groups which had won seats in the October 1991 elections, the UDF group only had a minority of MPs directly affiliated to it. Its ability to govern depended on the (implicit) support of the Movement for Rights and Freedoms (MRF) which is strongly linked to the Turkish-language and Islamic ethnic minorities in Bulgaria. The final group in the parliament was the Bulgarian Socialist Party (BSP) formed by members of the old communist party in Bulgaria.

supportive of a market economy, to improve the efficiency of fiscal administration, and to put forward specific programmes for rapid privatization.

The new government's programme differed from its predecessor by its greater emphasis on alleviating the burden on workers, the unemployed, and pensioners — calling for an increase in indexation of incomes and for new social security mechanisms. Its first programme called for a slight rise in the budget deficit target. It also said it would try to promote the development of private enterprise in production.[13] Budget deficit constraints meant the new government had to mainly count on the private sector for job creation. The government also said it would not seek to reduce the autonomy of the Bulgarian National Bank to carry out its regulatory functions and provide for independent and responsible monetary policy.[14]

There was no political honeymoon for the Berov cabinet. The severe economic crisis, plus pressures from international financial institutions, constrained the freedom of action of the new government. Within weeks of its taking office, international agencies demanded more fiscal responsibility, calling for budget cuts, tax increases, and/or price hikes. The government was severely criticized by the radical UDF MPs in parliament, who argued for early elections and a vote of no-confidence in parliament — a pattern which continued throughout all of 1993.

Compared to the two previous years, in 1993 there was more discussion both in and out of government about alternative long-run variants of a market economy. Models of capitalism based on the "social economy" of Germany, Scandinavian social democracy, and the Japanese and East Asian development strategies have gotten more serious attention. Nevertheless, the current crisis has given the government relatively little latitude for creative policy making. Although a tripartite council was reactivated (government, managers/business, trade unions) to negotiate incomes policy, budget constraints on subsidization of SOEs and the ire of members have led both major trade unions to become increasingly critical of the Berov government.[15]

Measured output of goods production has continued its general decline. Following the disastrous declines of 1990-1992, 1993 is expected to see another 10 per cent decline in manufacturing. People in government, or closely connected to it, have argued more publicly

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[13] Although observers continue to disagree on the scale of private sector activity in Bulgaria, most do agree that it is largely restricted to trade, commerce, and services, with some growth in financial services. There are still (late 1993) very few private enterprises engaged in manufacturing or other material production activities outside of primary agriculture. Data on this latter issue is absent and knowledgeable people estimate private manufacturing to be no more than 5 per cent — most estimating it at even less.

[14] In the middle of 1992, the then Minister of Finance, Ivan Kostov, one of the radical liberal members of the UDF, had called for greater direct parliamentary control over the BNB. After he lost his position as minister, Kostov openly criticized the BNB for incompetence and for helping subvert the ability of the UDF government and his ministry to carry out their policies.

[15] The tripartite agreement was for wages to be indexed at 90 per cent of inflation. Trade unions have claimed that the government has used incorrect statistical procedures to calculate the indices for implementing the policy. Many SOEs have been unable or unwilling to pay workers wages in a timely manner (many enterprises are often months in arrears in wage payments; others have only paid workers a portion of each monthly wage).

for the necessity of a proactive structural adjustment policy (i.e. industrial policy) to deal with the continuing decline of industry.[16]

The new government has found it equally difficult to collect taxes and to hold down budget expenditures. The shortfall on anticipated collections is predicted to be more than 20 per cent. Expenditures will be significantly greater than anticipated. The deficit target for 1993 was already surpassed several weeks before the end of the year.

The Bulgarian central bank (BNB) carried out a moderately restrictive monetary policy during the course of 1993. This is not very different than in the two previous years. In the last months of 1993 the Bulgarian lev came under pressure from traders. The bank has worked hard to keep the lev/dollar rate from exploding but there has been significant loss of confidence in the ability of the authorities to keep the exchange rate under control.[17]

At the end of 1993 then, many major macroeconomic indicators have continued to deteriorate. The more optimistic analysts hope that the bottom of the "J" curve of transition is near. They emphasize that the liberal macroeconomic policies (most of which continue to be operative) have achieved some good results. There is no hyperinflation, relative prices at the retail level reflect world markets, private traders and retailers are very active and along with many other individuals are actively acquiring knowledge of entrepreneurship and market processes, inflation and the foreign exchange rate are not "out of control," and, in general, statistics and anecdotal evidence give one much more hope than the nay-sayers would allow. Despite the political conflicts, the process of transformation has been remarkable for its peacefulness.

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[16] Although the liberals in power in 1991-1992 used the rhetoric of a laissez faire approach to structural adjustment, circumstances soon eliminated the possibility of holding to such a radical policy. The difference is that the government preferred withdrawal from active industrial policy, believing that government policies were as likely (or more so) to harm the process of enterprise adjustments as they would help rationalize the economy. The current government appears not to have this radical aversion to policy-making oriented to industry, even while it has found it quite difficult to formulate a coherent explanation for the apparent ad hoc nature of its own interventions. Even in the 1991-1992 period, some Bulgarian government officials bitterly joked about the necessity they felt to represent (to foreign officials from Western governments and international agencies) their policies as more liberalist than they really were, or than the officials thought they should be, given the dire crisis some industrial sectors were in.

[17] Another indication of this is the fall of lev deposits and the rise of foreign exchange deposits in the banking system.

3. Employment, management strategies, unions and industrial relations in the transition period

3.1 Reducing the labour supply

At the end of the communist era, most people in Bulgaria knew that almost all enterprises had excess labour and that many workers might be released with no effect on output. Near the end of the first year of post-communist reforms, mandatory and early retirement were selected as the initial means of stimulating state enterprises to shed labour. For those near pensionable age, the incentive was to offer early retirees 90 per cent of their normal retirement pension if they voluntarily agreed to end their contract. Some enterprises offered to pay the 10 per cent difference in order to stimulate more people to accept this offer. If firms insisted on keeping employees who were past the retirement age, they were required to pay a large recurring tax to the government for each post-retirement-age employee retained on regular contract. All together, these (push-and-pull) policies apparently led to the large exodus of retirement- or near retirement-age people from most state enterprises.[18]

The government strategy to reduce the state sector labour supply after this initial move was not so precisely geared as its policies to remove older workers. The liberal government in 1991 wished for state enterprise managers to behave like profit-oriented capitalist managers. The government wanted to change the economic environment surrounding the state enterprises. Enterprises would no longer be sure of subsidies, nor of credit availability so that, in theory, their financial resources would be limited to the revenues they received from sales. "Corporatization" — greater autonomy for management — would separate enterprises from direct government administrative control so that managers could be expected (required) to act independently to ensure the survival of the enterprise. "Marketization" of the economy also meant that the enterprise was free to change the prices of the products it sold as it looked for buyers in the decentralized networks of market exchange.[19]

During the 1991-1992 period, the state progressively cut budget subsidies to state enterprises (SOEs) and lay-offs became more frequent over time. People who voluntarily left jobs found it increasingly difficult to locate new employment in the state sector. Many voluntary and involuntary leavers re-entered the labour market but in the unmeasured private sector. Others left the country. Officially measured unemployment rose from zero at the beginning of 1990 to half a million by mid-1992. Table 1 summarizes the labour market aggregate figures during the period under review.

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[18] The number of pensions only increased by a quarter of this amount; also, people can receive more than one pension based on their work history. Perhaps, then, some 100,000 pensioners and early retirees left the labour force in 1989-91.

[19] Although there was a cap on price mark-ups, many enterprises could use creative accounting to reduce the effect of the cap.

Table 1. Bulgarian labour market in transition, 1989-1993

	1989	1990	1991	1992	1993 (est.)
Labour force (av., millions)	4.4	4.2	3.7	3.6	3.0
Participation rate (per cent)	87.0	83.0	74.0	73.0	—
Employment (av., millions)	4.4	4.1	3.6	3.1	2.4
Unemployed (av., millions)	0	0.05	0.26	0.5	0.6
— Rate	—	1.2	7.0	—	—
Unemployed (year end)					
— Millions	0	0.07	0.42	0.6	0.6
— Rate (approx.)	—	1.7	11.0	17.0	20.0

Notes: There was a significant shrinkage of the labour force participation rate and aggregate level of employment. It is difficult to judge the reliability of the numbers of the labour force, or to evaluate the precise number of the unemployed/desiring work. The fall in the labour force participation rate represents a fall of over a half million people. Estimates of exclusively private sector employees are very unreliable for the 1989-1992 period, at least up to the census of 1992. Even the 1992 census is somewhat unreliable as to labour market status, as many Bulgarians do not wish their economic activities to be known to the authorities since new personal income taxes have come into existence. From the most recent previous census of 1985 to that of December 1992, the national population fell by more than half a million. The census of December 1992 measured an additional 100,000 unemployed compared to the employment bureau offices' registrations (i.e. approximately 20 per cent higher). Some analysts argue that unemployment is either greater or less than the official rate (i.e. registered unemployed). Estimates of "real" levels of unemployment, voluntary exits from the labour force, the adequacy of measures of unemployment, and other conclusions about the Bulgarian labour market tend to be coloured by one's views of the severity of the economic crisis and the harshness of its impact on the population.

Sources: NSI. *Statistical Reference Book*, 1991, 1992, 1993; OECD, *Short-Term Economic Indicators Central and Eastern Europe*, 1992, 1993; own calculations.

3.2 The varied responses of managers to the new economic environment

At the outset of the post-communist transition, there was a political consensus (at least in public discourse) that enterprises should rapidly be made to respond to decentralized market signals rather than the fiat of political decision makers. However, politics has continued to be dominant, or at least an equal force, to the market. The policies of governments have not been sufficiently ruthless, focused, nor comprehensive enough to put into effect a clear and consistent economic "hard budget" constraint on the state enterprise managements. Constraints on enterprises have changed from the old system, but have involved a continuously and unpredictably shifting array of incentives and sanctions, due, in large part, to the highly politicized policy-making climate of the four years of transition. Managers, predictably, have reacted to these uncertainties and constraints in diverse ways. They have not always "rationalized" their enterprises according to any easily observable market-based criteria.

Even when some managers have attempted retrenchment policies in response to market demands, they have not always been allowed to succeed. If the workers complained loudly and engaged in threatened or actual industrial action, the government and its ministries would frequently back down from their promised policies, and sometimes help bring about a change in the enterprise's management. Management groups have repeatedly complained that the ministries and the government were sending them mixed signals and providing/enacting contradictory policies.

Following the October 1991 elections which put the UDF in power, there was a large-scale replacement of many managers of state enterprises. Ministers, politicians, and others called for the replacement of particular groups of the management "nomenklatura" because these communist party careerists were incompetent, corrupt, or both. But even the liberal, anti-communist government of 1991-1992 was not uniformly hostile to managers. In certain branches, there were repeated meetings between the ministries, other representatives of the government, and management so that the government could better communicate its goals to the state-enterprise managers. Many managers had risen to their positions at least in part because of their competence in running a highly complex production organization. Others had been chosen by workers (following the "self-management" provisions of the 1986 Labour Code in which workers had the legal right to elect/impeach managers) as the best from among eligible candidates put forward by the old communist party apparatus.

Understandably, especially considering the unanticipated severity and duration of the economic crisis, state enterprise managers have displayed a diversity of styles of reacting to the new environment. Initially, many perceived their best allies to be the workers. These managers sought to maintain employment by whatever means they could. Many felt that they had to pay primary attention to the desires and fears of the workforce at the enterprise. At the other extreme, there were a few management groups which decided that large and immediate lay-offs were the best response to a massive drop in demand for the enterprise products.

The great majority of the general directors or management teams were in between these extremes and had differing mixtures of objectives, priorities, and information.[20] Some managers focused on lining up potential foreign investors for an immediate joint venture or future privatization. Others saw that their immediate crisis meant they had to look for new markets and they spent most of their time in search of new customers. Other managers focused on developing new product lines which they perceived would have a better chance in gaining access to new markets, or in some cases could be sold domestically and would thus ensure some employment was retained at the enterprise. Still other managers were focused on acquiring assets for themselves or their friends. They worked to provide themselves with (privatized) economic alternatives for the uncertain future.

The different goals are evident also in the reaction of workers and trade unions to specific cases. Workers frequently went on strike to call for the dismissal of their enterprise management (under the 1986 labour code, workers had this right). In other cases, managers were neither allied with workers, nor with the government in any explicit way. Here the managers pursued their own agendas, constrained by workers' demands on the one hand, and the government's attempts to impose its requirements on the other. Needless to say, all but the most self-confident managers in the state sector were frightened about their personal future, confused about government intentions, which tended to make them focus on immediate problems and less on medium- or long-term strategies (aside from personal survival in the new system). Managers, trained in the old system to hoard labour in the enterprise, have failed to reduce their work forces at any rate near the rate of decrease in demand for their production or services. This has had an ironic result. Labour productivity

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[20] One thoughtful Bulgarian economist thinks that there is one consistent goal of the SOE managers in the reform period: managerial survival through the reforms and into the actual process of privatization. This goal seems very plausible, but does not necessarily predict the behaviour of any particular manager. Their information and assessment of the situation might differ and actions might differ considerably across firms. Even so, managers seem to have generally acted to secure their personal fortunes for the future, and this was only accidentally the same as profit maximization (Pamonktchiev, 1993).

(output per worker) has actually declined during the transition in the vast majority of state-owned economic sectors of the economy.[21]

3.3 Trade union movements in transition

The strongest resistance to the prolonged pressures for reducing work forces has come from workers and the trade union organizations. Unemployment hardly existed under the communist system and the single monolithic trade union had no experience with it. The party-controlled union had acted as a "transmission belt" for implementing party policies.[22]

Bulgaria had passed a new Labour Code in 1986, in response to the worsening economic difficulties and as perestroika developed in the USSR's model socialism. On paper, this law enacted a quite radical variant of "self-management" which gave workers significant rights of control and participation in workplace decisions. In some cases, workers had taken the measure seriously and become quite active in trying to assert these new rights. The reality was otherwise, since party influences and often management prerogatives superseded worker attempts to take advantage of the provisions in the new law.

As the political crisis was coming to a boil during 1989, a new trade union, the Confederation of Labour "Podkrepa" was organized by a small group led by a dissident doctor, K. Trenchev. This has developed into the second largest labour confederation. Shortly after the removal of the long-time Communist Party secretary, Todor Zhivkov, in November 1989, the leadership of the old officially sanctioned trade union confederation resigned. The official union met in early 1990 in a special congress and elected as president K. Petkov, an academic sociologist and head of the union research organization. The same congress reformed the union as the Confederation of Independent Trade Unions of Bulgaria (CITUB). These two confederations dominate the labour movement[23] and these two leaders remain at the head of each organization.[24] The relations between the top leaders of CITUB and Podkrepa were often acrimonious, with Trenchev and Podkrepa bitterly accusing CITUB of simply being old communists in a new guise.[25] Local leadership and rank-and-file members of these two confederations have not necessarily followed this pattern; some locals have engaged in active cooperation, even while competing for members.

Trade unions have come to play some political role in the transition period. In the elections of 1991, Podkrepa was a strong supporter of the strongly anti-communist elements

[21] It is arguable that this result is to be expected. The fall in labour productivity during an economic contraction is not unusual in the sense that this is characteristic of developed market economies in the recessionary phase of the business cycle. What is unusual perhaps, is the severity of the economic collapse of production in Bulgaria.

[22] In the past, the single union confederation had also carried out other functions mainly related to social welfare functions such as operating holiday camps and hotels.

[23] A large random survey of 4,600 manufacturing workers in late summer 1992 indicates that CITUB had a majority of workers while Podkrepa has about a quarter or a third as many.

[24] Petkov has been re-elected twice at CITUB congresses (fall of 1991 and 1993), the first time unopposed (although severely criticized by several factions during much of the congress), and the second time in a relatively bitter and divisive contest with his well-known former press spokesperson and Vice-President, Diana Damianova.

[25] Podkrepa and its leader has had a close association with the strongly anti-communist international arm of the main US confederation, the AFL-CIO. The AFL-CIO effectively "blacklisted" CITUB and its leadership up through 1992, avoiding any contact with the confederation. European unions, confederations, and international bodies have been much more open in their dealings with CITUB and Podkrepa.

of the UDF movement, while CITUB was close to two centrist parties, neither of which got enough votes to get representation in parliament.

Several other smaller unions and federations have been formed. "Edinstvo" is closely associated with the "hardliners" in the reformed communist movement, the Bulgarian Socialist Party (BSP). Another union, National Union-Podkrepa, which began with maritime workers in eastern Bulgaria, broke away from Podkrepa in 1992 complaining about "dictatorial" rule by Trenchev and the executive committee.

Membership in trade unions was made voluntary early on. There has been a diminution in the rate of membership, but as of late 1992, it appeared that some two-thirds of workers in SOEs remained a member of some union.

3.4 Evolution of industrial relations

Strike actions have become a regular tool of workers to deal with their problems at the workplace during the transition period. At times they have used strikes or threats of industrial action to force more rapid action on the part of their own regional or national union confederation leaders. National confederations have also made use of the strike weapon. The process leading to a change in ministries in late 1990/early 1991 began with the Podkrepa-initiated protests and miners' strikes in December 1990. CITUB has occasionally organized work stoppages to protest the rise in unemployment and more recently the two large confederations have informally cooperated to protest the fall in real wages of workers, the real incomes of pensioners, and the compensation paid the unemployed who qualify for benefits.

Decentralized collective bargaining (enterprise-level and some regional/sectoral level in public services) effectively began in late 1991 in response to the drastic fall in real incomes after the price liberalization. It has meant that the confederations have had to rapidly try to develop expertise in bargaining and the economic evaluation of enterprises. Since so much of the economy remains in state hands, bargaining inevitably retains a political character, with strikes and threats often aimed more at national and local governments rather than specifically at management.

At the national level, incomes policy negotiations have had an up-and-down history during the transition. Tripartitism had originally developed in 1990, had gone into a less active phase following the 1991 price reforms, and effectively ended prior to the elections of fall 1991. This was most particularly resented by CITUB since it was its major vehicle for having a formal inside channel of influence and information on the economic reforms. Podkrepa had supported the UDF in the elections, and had some of its own members/associates in parliament and afterwards in some ministries. Thus Podkrepa did not feel such a need for an active tripartite structure from the fall of 1991 until the spring of 1992. As Podkrepa became increasingly unhappy with the progress of the economic reforms and with two ministers in particular (Industry, Finance), and after Podkrepa formally left the UDF coalition (multi-party, multi-organization) movement, the confederation was ready to push for a reconstitution of the tripartite council. This developed fruitfully at first, and a new three-way agreement was signed in the spring of 1992.

Nevertheless, there were certain elements of the UDF government which did not really wish to take the tripartite process very seriously and in early summer 1992, the meetings were being avoided by members of the government. Ultimately, this became part of the general confrontation and mutual attacks between the government and the two trade union confederations in mid-July 1992. This struggle over tripartism inside the UDF cabinet and parliament persisted until the fall of the UDF government at the end of 1992. The new moderate government helped re-start the process and during 1993, the main debates on wage policies have revolved around the indexation (incomes at somewhat less than inflation) agreements of the National Tripartite Council.

Podkrepa and CITUB do differ on their economic policies. Podkrepa wants a very rapid transition to a privatized economy and sees one of its main jobs as pressuring the government to do this. More Podkrepa workers and activists talk of a strongly liberalized economy, often using the USA as a role model of a possible Bulgarian future. CITUB has been less rushed about privatization, especially if it means chaos in the state sector enterprises where it has the bulk of its membership. CITUB would like to evolve towards a more social democratic market economy on the northern European model. A corporatist tripartitism — with union leaders helping make the negotiated national decisions on shared sacrifices in the transition to a market economy — is very attractive to its leadership.

Both CITUB and Podkrepa favour a decent level for both basic pensions and minimum wages. Podkrepa seems to prefer to let the private sector alone for the moment, not imposing any labour/employment restrictions until it becomes much stronger. However, this liberalist attitude of the top leadership is evolving; Podkrepa has members in private enterprises and must deal with the private sector labour relations problems as they emerge in reality.

Both confederations are in favour of worker preferences in purchasing discounted shares in their companies as they become privatized. Neither is sufficiently prepared to give workers precise advice on whether or not to actually purchase shares in their own enterprises. It is not clear that anyone will have this ability to analyse the prospects of investing in state enterprises in the current economic environment. The shares do not bring voting rights for the first three years so their value will depend on the other owners involved — those holding the rest of the enterprise's shares, some of which will likely remain owned by the state or state agencies. It seems likely that many of the companies will pay out few if any dividends during the first three years. What may be the value of shares — shares without voting rights and without a likely short-term money dividend — is very ambiguous. The discount may not seem attractive enough, especially if the workers have to come up with cash in order to pay for the shares.

4. Privatization

4.1 Privatization and marketization: Definition problems

The process of forcing state firms to face the hard reality of possible bankruptcy was one part of the liberal 1991-92 government's stated intention to privatize the economic decision-making of the country — to take microeconomic decisions out of the hands of government officials and put them into those of non-public economic agents. That government often complained of obstructive management teams who were slowing down or even actively subverting the moves towards a responsible, equitable and fiscally sound full privatization of state enterprises. The liberal government was dissatisfied with its progress, but this has been true for all of the different governments of the transition period. Each one has claimed to want more rapid privatization.

"Privatization," as it is used in Bulgaria, specifically refers to the *actual transfer of ownership* of state property to private individuals or firms. This is the narrow sense of the term. In spite of announced desires for speed, actual transfers of ownership of major state enterprises are still very few in number.

There are broader concepts of "privatization," and in this paper a broad variant is used. In addition to outright sale of state assets, *other aspects of restructuring* are included — those which try create a large number of autonomous or entirely private economic actors who are not controlled directly by the government. This broader version of "privatization" might just as well be called the re-creation of the independent and private sectors. In summary it includes the following:

1) Selling uncontested state property (for example, property which has traditionally been state-owned, or was developed entirely in the state sector, or was the result of fully compensated, and largely voluntary nationalization process);

2) The leasing or contracting out of such state property;

3) The cutting loose of informal lines of state control over certain units of the economy (notably the renewal of the independence of the cooperative sector);

4) Restitution (restoration) of illegitimately seized property (e.g. legislatively nationalized land and factories returned to the pre-communist owners; control of property which was more informally placed under state controls restored to former owners);

5) Promotion of the development of wholly new private enterprises (creating new businesses or even sometimes trying to stimulate the entry into open lawful activity of formerly underground, black market entrepreneurs);

6) Attracting private foreign firms to open up operations in the country;

7) Giving private businesses the right to provide goods and services which have formerly been monopolized by the state sector (this may not involve any transfer of assets, but more often legal state monopoly to carry on specific lines of production must be eliminated first).

This broader meaning of the term leads to discussion of policies and economic mechanisms besides outright ownership transfer — one of which is the "marketization" of state-owned enterprises.[26] Marketization refers to attempts to restructure the management, the administrative controls, and the regulatory environment so that these ongoing state enterprises act more (or entirely) like autonomous, private, market-oriented firms. Eventually, like private firms, they buy inputs and sell outputs at market prices without any preferences in the bidding processes. Ultimately, they ought to have little *ad hoc* flexibility or recourse to additional public budget subsidies in hard times. The main additional public aid (beyond planned funding) they would receive would be identical to any special programmes available for private firms. There would be few if any special privileges, although management might be aware that public goals may be somewhat broader than those of the classic profit-maximizing investor. Nevertheless, the state-owned enterprise management teams could take actions autonomously, without consulting public authorities on a day-to-day basis. The management would be answerable to the enterprise's Board of Directors (or Supervisory Board) just like the management in purely private corporations.[27] The Board's main control mechanism over top managers is the power to replace them, just as in the private sector joint-stock company.

In Bulgaria, the enterprises for such potential autonomy do *not* necessarily include those involved in traditionally public services which, in more developed market economies of Western Europe, are publicly provided by agencies under direct state management (e.g. health, education). They are rather those which are currently publicly owned (not necessarily for all time) and for which, in the short-term, no superior alternative private arrangement seems to be economically justifiable as feasible and efficient.

In contrast, for the sectors seen as *fully* privatizable, the general movement toward marketization of state enterprises is considered as only a temporary and partial step to full private ownership. For these, the goal is to prepare current state enterprises for outright sale (privatization) in the future. The result of this marketization may provide better information to private buyers as to which state firms are viable concerns and attractive investments. The government may also become better informed as to which state companies are potentially viable and valuable operations and which are not. If the marketization process is successful, it could reduce the negative budgetary impact of the state enterprise sector (reducing subsidies, increasing tax revenues). If the good or service provided involves a natural monopoly, but still does not meet costs, operating in the market may help make clear the required level of public subsidy to maintain (politically decided) production levels at current

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[26] These could be similar to, say, the French SOEs in manufacturing, which operate autonomously and are primarily responsive to market signals rather than government preferences. Thus, as discussed above, the attempt to impose "hard budget" constraints on them is part of this process.

[27] Thus, public goals as such would only be represented among the Directors on the Supervisory Boards. Management would have to respond to them but only in the same way as managers in purely private companies do to the variety of interests which exist among their own Board's members.

prices. In other cases in which no significant natural monopoly exists, competition can be enhanced by private producers of similar goods or services entering the market.

4.2 The politics and economics of privatization in Bulgaria

The multi-faceted "privatization" programme described above has not developed in a coherently planned or organized fashion in Bulgaria. It is the outcome of continuing political struggles. It has taken place in the context of a revolutionary change in political power in which antagonisms have deep roots and where many politicians appear more focused on self-vindication, on just punishments of past collaborators in totalitarianism, or on outright revenge. The elections of October 1991 eliminated most independent representation of the middle ground parties which might have contributed to creating a democracy which was more tolerant of differences and more understanding of the seemingly unavoidable personal compromises of the past — one more accepting of a significantly pluralistic democratic system. The electoral results, however, created a government in 1991-92 which perceived little need for broader consensus on economic reforms, at least within parliament making the laws. This divided, bi-polar political development has had important implications for the economic reform process.

A significant amount of attention of the Union of Democratic Forces lawmakers was on designing legislation for economic reforms which had a dual aim. They wanted a dynamic, modern market economic system. However, they wanted this new economy to hold out little or no chance for the previous regime's ruling elite, and their numerous "collaborators" in the old centralized system, to rise again, this time through economic power. Thus, economic reforms were structured with the goal of preventing former communist "profiteers" (e.g. with difficult-to-trace hard currency accounts secreted abroad) and the former *nomenklatura* and active careerist party members, from translating their many advantages into dominance in the new market system. These advantages (e.g. more educational opportunities, more experience in commerce and foreign travel, more contacts in the past with foreigners, more knowledge on how to manage money and hard currency, etc.) were seen as their means of emerging as the main new "red" capitalist entrepreneurial class in a free market economy. For example, the main privatization law passed in mid-1992 has a clause requiring buyers to disclose the "origins" of the money used to purchase any enterprise assets.

In this sense, economic reforms have been strongly politicized. Without a political understanding of the reform process, some changes would appear economically illogical, or even irrational. There appear many easier, probably more effective, mechanisms to achieve certain economic goals, but not, however, if one seeks to achieve economic changes and political retribution.

Paradoxically, economists representing both the communist ruling groups and the anti-communist opposition forces could agree within four months of Zhivkov's overthrow that a private property-based, market system was a *sine qua non* of a modern Bulgarian economy. Both political poles saw the need for privatization as a crucial step in the right direction. What continues in dispute is the precise manner of creating the autonomous private sector which is expected to dominate economic life in the future.

When the socialists (reformed communists) were a majority in parliament (June 1990-October 1991) the UDF opposition criticized them for holding back the speed of privatization. The anti-communist UDF was the leader in the coalition government (October 1991 to late 1992) and had control of the ministries of Finance and Industry even longer. The same criticism of inadequate speed in privatization was levelled at them by the parliamentary BSP faction. Others — including officials of the International Monetary Fund — have complained about every transition governments' lack of speed in privatization.

Specific matters concerning privatization which have seriously exercised political debate in Bulgaria include:

(i) "sequencing," or the order of reforms, and whether privatization should occur first, continuously, or only at the end of a set of prior steps;

(ii) the issue of fairness and equity in the process, especially who would get preferential treatment;

(iii) what kind of new ownership structure should be aimed at, "strong"/concentrated, "weak"/dispersed, a mixture of these, or some middle ground;

(iv) whether there should be a "free" distribution of shares or only the budget-enhancing sale of assets;

(v) the political control and public accountability of the agencies (State Privatization Agency, et al.) in charge of the actual process of privatization;

(vi) the participation of the trade unions in the formulation of the privatization mechanisms and later in the actual process of privatization in individual enterprises;

(vii) the retention of a state share — or of some quasi-autonomous government organization/fund — in the ownership of assets of the privatized enterprises;

(viii) the purposes to which the sales revenues should be put;

(ix) the relationship (contradictions) between restitution (the same actual physical assets or only financial compensation) of nationalized property and the privatization process;

(x) the flexibility of the methods and procedures for privatization permitted to the agencies in charge;

(xi) restrictions on foreign buyers or foreign companies in the process (protection of the national patrimony); and, as mentioned,

(xi) restrictions on former high communist officials participating in privatization.[28]

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[28] Many of these have been discussed *ad nauseum*, especially the mainly political issues. See, e.g. *Monitor na Privatizatsiyata*, miscellaneous issues, 1992.

Many technical issues (some with political implications) were debated as well: establishing minimum prices; valuation procedures and training/licensing of specialists; methods for selling enterprises or parts of them; rules/methods/criteria for selecting enterprises to be privatized; methods of payment for the assets; rights of the creditors of privatized enterprises; and so on. Nearly all these substantial and technical issues have also been debated in other East and Central European countries (von Brabant, 1991). Many have been debated in the dozens of countries around the world which have been involved in setting up privatization procedures in the last few years.[29] The major Bulgarian privatization law of April/May 1992 decided some of these issues but left many still unresolved. Moreover, even some of the decisions can be interpreted or implemented in a variety of ways.[30]

4.3 Legal reforms, privatization and state enterprises: The history of privatizations and privatization laws: 1989-93

The maze of laws, decrees, and regulations which have affected the transfer of state-owned property[31] make generalizations difficult about what privatization has already occurred in Bulgaria. Reliable, up-to-date, publicly available data on privatization is nearly non-existent.[32] Nevertheless, some conclusions can be drawn while keeping in mind their tentative nature. Most of the state property which has been transferred (fully privatized) so far, is either land, buildings, other real estate, office supplies, small-scale equipment, or vehicles. In this section the focus is on the transition period attempts to set in motion the full privatization of the main SOEs.[33]

For exposition purposes, we will distinguish three or four phases in the privatization of state-owned assets in Bulgaria. The first is the period of "spontaneous" (or "wild" or "self" or "quiet") privatizations early in the transition period. The second phase is the so-called "small privatization" process begun early in 1991, halted towards the end of that year and, after some delay, continued intermittently since. The third phase began with the passage of the main privatization law in mid-1992, while a fourth phase might be identified with the replacement, in mid-1993, of much of the Supervisory Board, and somewhat later, the Executive Director of the State Privatization Agency.[34] A potential fifth phase may be near

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[29] Bulgaria is not very unusual. See the discussions in Gormley, 1990; Suleiman and Waterbury, 1990; Donhue, 1989; and for a survey of privatization in many countries in Central and Eastern Europe, including the former Soviet republics, see, Frydman, Rapaczynski, Earle et al. (eds.), Vol. 1 (1993) and Vol. 2 (1993).

[30] The details of this, the principal privatization law affecting the major state enterprises, are included in an appendix to this paper. Certain additional decrees and laws have been passed clarifying some, but by no means all, of the uncovered issues since the law was passed.

[31] Up through mid-1992, the major laws affecting privatization in Bulgaria are included in Rock, 1992, appendix.

[32] Tables of restituted and privatized property do exist but they are not very useful to assess effective control (i.e. "full privatization") of the properties listed on them. For example, agricultural lands have been restituted, but Western and Bulgarian academics working on a major research project on the transformation of Bulgarian agriculture have found that the nominally private lands are still not controlled/farmed by the supposed owners. The current data is probably most adequate for assessing full privatization of urban retail/commercial real estate restitutions.

[33] By SOEs we refer to both national and local enterprises owned by governments at both levels. For convenience we also include the cooperative enterprises under this heading.

[34] These are not perfectly sequential "phases." The second phase or type of privatization overlaps with both the third and fourth. Also, "quiet" or "wild" (illegal or quasi-legal) acquisition of state property has apparently continued to be a problem all throughout the transition period. This is due in part to the sometimes mutually contradictory laws in place and also due to the cleverness of Bulgarians in the new environment to test the limits of all new restrictions on self-dealing.

(continued...)

in the future, as the current (1993-1994) government wants to implement a "mass privatization" law involving subsidized vouchers for all Bulgarian adults.

The majority of the "wild" privatizations appear to have occurred mainly before August 1990. At that moment, the newly elected president (a compromise candidate, Zhelyu Zhelev), declared a moratorium on any further transfer of state assets. This action was taken because of charges that managers and other personnel connected with state firms were enriching themselves by transferring assets to their own or other related persons' businesses at very low prices.

There are many cases where state enterprise assets were in fact sold at extremely favourable (low) prices compared to what they could have fetched at an open public auction. Setting a very low price was technically legal. Bulgarian enterprises only put values on physical and financial assets. Physical assets were valued on the company books at purchase prices minus a fixed depreciation. Inflation was hardly accounted for during previous years. Trademarks, technical processes, inventions, or general corporate "good will" had no explicit valuation under socialist accounting methodology. Thus, the old enterprise book values had little relationship to any reasonable market or auction basis price.

The process of wild privatization was supported by Decree 56 of January 1989, enacted under the communist Zhivkov regime. This important decree recognized private business of various corporate forms and also described asset transfer procedures. It allowed Bulgarians to establish private companies (to which, implicitly, assets from state enterprises could be sold). Other regulations by the Council of Ministers in 1989 and 1990 also specifically permitted the leasing or full transfer of assets. Assets which were specified in each of these various measures included: (i) the leasing of retail and distribution outlets to their staffs; (ii) the leasing or transfer of assets or enterprises in tourism, distribution and trade, or services; and (iii) the sale of used vehicles and farm machinery.

Another measure which aided the wild transfer was an amendment to Decree 56 in Spring 1990 transforming directly state-owned enterprises (i.e. directly administered by state authorities) into state-owned corporations. This seemingly innocuous change had the effect of requiring the transformed enterprise to establish a board of directors which governed the enterprise (i.e. only indirect connection to state authorities). The amendment also allowed the enterprise to auction off fixed assets. Thus, significant pieces of property could be sold at an "auction" which was apparently whatever form of sale the company board decided, since the precise rules for conducting an auction were unspecified.

It also appears that another provision in the supplemental regulations for Decree 56 helped create the possibility of newly issued stocks in an enterprise being sold to its employees. In some enterprises, it appears that this was the technical loophole to transfer part of the

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For example a recent (late 1993) "White Paper" by the governor of the Bulgarian National Bank outlined the apparently unpunished irregularities in nine major banks, where new shares were issued without permission of the BNB. One of the Bulgarian legal advisors aiding the State Privatization Agency sardonically commented to me, "In Bulgaria, we have the most clever "quiet" privatizers in all of Eastern Europe."

company assets to some of the employees. The board and management could determine both the price per share as well as the specific rights attached to these shares.

There are strong criticisms of this process of wild privatization and many include charges that these transfers were done illegally. Until mid-1991, with the passage of the commercial code (voiding much of Decree 56 of 1989) and another act on formation of state sole proprietorship companies (which stopped stock or ownership share transfers explicitly), there was no clear legal regime regulating all possible means of transferring, or leasing at rock-bottom prices, state property. The legal regime was often contradictory. Thus, if the parties involved in the spontaneous privatizations were clever enough, what they did may be considered immoral, but it may be that most cases can find some legislative or rule-based evidence for their legality.

The second phase of enterprise privatization was the so-called attempt at "small privatization" during 1991. To provide a legal opening, in December 1990, the moratorium suspending all transfers of property of the preceding August was partially voided. This allowed smaller enterprises or small parts of larger firms to be sold through open, publicly announced auctions or through a tendering process. The special resolution required specific government authorization for such sales to be held by enterprise boards. Gas stations, retail shops, small workshops, machines and vehicles were planned for sale by the Ministry of Industry and Trade. Several dozen sales were made, through both announced, solicited bids and open auction procedures and the total of the initial value was about 100 million leva (approximately US$5 million) but no full information on the total sales revenue had been released by the middle of 1992 (CSD, 1992). The sales were suspended in the last half of 1991, after enactment of the commercial code, and pending the passage of a full-scale privatization law.

The passage of the formally recognized "privatization law" in mid-1992 was preceded by a great volume of public discussion, media attention, and energetic parliamentary debate. This is what can be considered the beginning of the third phase of enterprise privatization in Bulgaria. The passage of the law was politically very difficult and occurred only as soon as it did under intense pressure from international financial organizations. The process of debating more or less specific proposed versions of the law lasted over a year outside parliament and a half year in the UDF-dominated parliament. The law is quite complex. It is a very flexible law, and appears to have taken a great deal from the flexible Hungarian privatization arrangements and some components from the Polish law (on workers' preferences). The law gives the cabinet and the parliament (their agents, the State Privatization Agency, and several Ministries responsible for enterprises in their domain) a great deal of latitude in deciding the fate of each individual enterprise. Municipal governments will be similarly responsible for privatizing the firms under their jurisdiction. No single method of sale is required. The timing and sequence of privatization is unspecified. Several matters were left for further resolution by decree, regulations, or even more ad hoc decisions in the future. With these additional regulations, the law does provide the general legal framework in which specific privatizations can proceed. The privatization agency, along with the ministries, was to propose the first major enterprises for privatization within a few months of passage.

There are other matters which had been decided, prior to the passage of the privatization law, which are relevant to the process. As discussed earlier, the government wished to have state-owned enterprises face market constraints and already take advantage quickly of market opportunities. It also wanted more competition than existed. Thus, a variety of laws and decrees were enacted during 1991-1992 which provided some of the context for making the enterprises face more competition and a harder budget constraint. "Demonopolization" of state enterprises (breaking up the big multi-establishment "firms" or "kombinats" into separate units) began even before the mandates of the Protection of Competition Law in mid-1991. It accelerated afterward. Some enterprise managements, however, complained that the demonopolization went too far since some of the separated enterprises were still entirely dependent on other parts of the bigger state firms (for inputs, for marketing output, for exports and imports).

Most large state enterprises have been "corporatized."[35] That is, they were transformed into state-owned joint-stock or limited liability partnerships (indirectly state controlled). This facilitates their sale, especially if only part of an enterprise is sold (and subjects them to shared ownership with other partners/shareholders). Transformation also provided a legal form for the enterprise to autonomously act on its own behalf and be distinguishable from directly controlled government agencies. The Board of Directors (or Supervisory Board in a two-tiered corporate governance arrangement system) became the accountable and liable party for the corporate "juridical person" under law. Government ownership (like that of any other owner) gave the right to vote/appoint directors to the Board.

The commercial code required specification of the initial capital investment creating a corporation. Valuation procedures were established in the fall of 1991 which required all state-owned enterprises to hire licensed accountant-appraisers. The firms had to provide these experts with full information on all assets controlled by the enterprise. This process anticipated the similar problem of how much the state should demand when selling (privatizing) the enterprise later. This was preceded by an Accountancy Act in early 1991 establishing a West European accounting framework in Bulgaria to replace the old Marxian based system. This solution of the valuation problem was slightly revised within the 1992 Privatization Act.

Other laws and institutions supporting privatization and marketization have also been passed. There are still important gaps in the institutional environment necessary for market constraints to operate effectively. Perhaps most notable were the absences of a modern, transparent bankruptcy law as well as public securities and capital markets acts. Other issues also hinder rapid privatization. SOE bad debts — to each other, to the banking system, and to the government — also make valuation of the assets for sale difficult. In some cases, the SOE management has acted in ways to slow down or prevent privatization. At the end of 1993 a new law was put forward involving a large personal monetary fine on managers who try to obstruct the process.

The political crises of the last half of 1992 eventually led to a new government at the beginning of 1993. This brought about (after several months) the replacement of the

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[35] Although the corporatized enterprises are not a majority of all the state enterprises, it appears that they represent a large majority of all of the state enterprise assets. This conclusion is based on interviews as well as an extrapolation of research on a subset of these SOE corporations by Pamouktchiev (1993).

government's appointed representatives on the privatization agency's Supervisory Board, who in turn elected a new Board chair and also helped bring about the replacement of the UDF-connected executive director. This is what may be seen as the beginning of the fourth, and so far, much more active phase of privatization. In the last half of 1993 the SPA has concluded its first sales agreements with a handful of foreign buyers — for three major enterprises.[36]

During the tenure of the new government (since January 1993) there appears to have been an acceleration of privatization actions by certain ministries with SOEs under their jurisdiction. This is particularly true of the last half of 1993. Most of the Bulgaria's municipalities have also moved more quickly than in the past to sell or auction off some of the local enterprises they are responsible for.

Whether there will soon be a fifth phase of Bulgarian privatization is still being decided. In the late summer of 1993, the government (i.e. the cabinet) proposed a "mass privatization" law involving subsidized vouchers for all Bulgarian adults. As of December 1993, there had been seven different specific mass privatization plans introduced in parliament. It appears likely that all resident citizens will be offered a voucher (probably equivalent to about a year's current average wages, according to the government) with which to purchase part of the state's assets for sale through an investment fund (like the Czech Republic) or directly invest in a joint-stock corporation.

4.4 Other "privatizations": Sales, restitutions, confiscations and new private firms

The previous section focused on privatizing state-owned production enterprises outside of agriculture. This section reviews the following: (i) the restitution of nationalized and non-nationalized personal property and cooperative property to former owners;[37] (ii) the sale of housing; (iii) new confiscations of the property controlled by communist and party/regime organizations; and (iv) the promotion of new private firms *ex nihilo*.

One of the most contentious issues in Bulgaria since 1989 has been the problem of how to dispose of *agricultural lands*. Bulgarian agriculture was almost entirely collectivized under the communists, with relatively little substantive difference in the recent past between state collective farms and cooperative farms. Neither were considered adequate to create an efficient agricultural production system. Even the communists recognized the importance and usefulness of individual incentives in agricultural work and allowed individual households the right to use a small plot of land to cultivate and market. This small share of land was important for producing a large proportion of key (mostly perishable) items.

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[36] The three deals which seem in good order involve companies in chocolate production (Swiss buyer), grains processing (Belgian buyer), and beer manufacturing (German buyer). Another previous deal with an American buyer has apparently gone sour since the buyer has not paid the amount as stipulated in the deal. To be fair, it should be mentioned that at least some of the credit for these deals belongs to the administrators in place even before January 1993. The time to conclude such deals can take many months and sometimes have taken even longer than a year.

[37] By the end of 1992, according to data from the National Statistical Institute, a total of nearly 20,000 pieces of urban property had been restituted. These included nearly 6,000 pieces of land, nearly the same number of shops (stores), almost 4,500 housing units, nearly 1,000 office buildings and warehouses, and a variety of other properties. The total represented about half of the number on which claims for restitution had been made. (NSI, xerox of summary sheet of restitutions, 1993.)

In the late 1980s the government promoted (essentially privately controlled) small cooperatives becoming involved in agricultural work, especially where the very large-scale collectives had trouble finding labour that would take the necessary care in harvesting to ensure quality production and distribution. After the overthrow of Zhivkov, debate (especially in the cities) began on the need to return to private farming. The first government following the change of November 1989 soon acted to permit private persons to lease up to 30 hectares of land. Several weeks after the change of ministers in December 1990, parliament passed the first land ownership act, which permitted individuals to get back the land which had been theirs before nationalization. The law was difficult to implement due to the lack of records or administrative procedures to facilitate the restitution. Most collective farm administrators appear to have taken little initiative in this first land restitution process. Also, many farm workers had stated repeatedly in polls that they preferred, in some fashion or other, to remain part of a cooperatively organized business. Still, there was no strong, unified rural consensus backing a precise form for the restitution.

The law on cooperatives of July 1991 set up a procedure for creating democratically controlled cooperatives out of the existing cooperatives — if the owners wished to do so. Farm owners in the still formally cooperatively organized farms had never had their land legislatively nationalized, so it was easier (no legislative act was required to restitute their property) to imagine their acting to create a new cooperative venture.

The UDF, who had parliamentary control after October 1991, wished to create a private property based agricultural system and at the same time eliminate the power base of the rural ("red" or communist/socialist leaning) agriculture managers.[38] Major amendments to the land act were passed in 1992 to achieve these joint goals. All collective farms in the country were required to first privatize the land, which would then be returned to former owners, with some being allocated to landless farmworkers who had a certain number of years working in the collectives. Only after this restitution and privatization took place could the new owners form a cooperative business if they wished. It still seems likely that some form of cooperative agriculture will exist in most parts of the country. The average size of landholdings is too small to be efficient otherwise, the average age of the working farm population is in the 50's, and most of the existing machinery is designed for large-scale farming.

The decision-makers on the allocation of land are special government-appointed land (or "liquidation") commissions. Not all commissions have been adequately sensitive to local issues and many disputes over the process and their decisions have been vividly reported in the mass media. The restitution process also required new land surveys of borders and valuations of land quality to ensure some rationality in the process. This was a long laborious process, even when aided by foreign financial aid for surveyor training and for computer equipment to enter the complex data collected. Not all of the land owned by the state farms was to be given to the current farmworkers; some land was to be taken from the state farms and made available for urban people. The government hoped to attract many urban dwellers, especially the unemployed, to live and farm in the rural areas, although

[38] In the both the 1990 and 1991 elections, the Bulgarian Socialist Party (BSP, created by former Communist Party activists) enjoyed its strongest voting support in the rural agricultural areas of the country.

opinion polls seem to contradict the likelihood of any large urban-to-rural migration.[39] The complicated procedures of land distributions have compounded the economic failures of Bulgarian agriculture during the transition. The reforms helped further aggravate the disruption of the complex economic linkages among farms, agriculture machine centres, transport, credit, etc. The story of agricultural reform is quite a sorry one even now, four years after 1989. Recently, in the fall of 1993, the government acted to accelerate the process of the land commissions, ruling that unless given special authority, they were to cease operations by 1 November 1993. The target was for the restitution of a majority of arable land by the end of 1993.

Most *production cooperatives outside of agriculture* never had their property formally nationalized. Already, many of them have simply had control of the factory or workshop returned to the staff. Most production cooperatives are in light industry. Over one hundred manufacturing firms were operating autonomously by mid-1992, and an equal or larger number were awaiting the restoration of their self-governing status. One problem was how to deal with former members (now dead or retired) who were in the cooperative when it was taken under the wing of the party-dominated central cooperative union or later given over to local government authorities. Another problem was how to treat the current workers who had only joined after the imposition of state/party/municipality control. In many cases, the members of the cooperatives held general assembly meetings in which present and former workers participated and decided on the allocation of property rights within the cooperative. Several other issues remained unresolved (Meurs and Rock, 1992).

The *restitution* of real estate and of enterprises expropriated in the past had to await specific and comprehensive legislation which finally was completed in February 1992. This Restitution of Immovable Property Act had one feature which might have stood in the way of the privatization of other state enterprises without nationalized personal property. In it there was no deadline for making a claim on state property and in principle the actual physical assets were to be returned to the previous owner or his/her heirs (a similar problem existed in the East German restitution process, whereas Hungary only compensates former owners in kind or financially). Thus the status of much property in Bulgaria would have remained uncertain for the indefinite future. This was partially resolved by a clause in the 1992 privatization law which stipulated a one-year limit for making a claim and the right to have a share in the privatized state enterprise equivalent to the value of the previously owned property.

Housing in Bulgaria is very largely privately owned. This was the case even before 1989. The main problem has been a shortage of apartments in certain urban centres. During the three year period from 1989-1992, over 6 per cent of housing stock was purchased from the state and central cooperative authorities in charge of the property (*168 BBN*, 7-14 June 1992). Prior to 1989, there was a long queuing process involving making a deposit and later paying a subsidized interest and principal payment over several years. The government accelerated the purchasing process after 1989 and passed a special provision to further subsidize people with housing deposits who were awaiting an accumulation of money in this fund to buy an apartment. This rapid purchase was very beneficial economically since the

[39] Although this seemed to be true in mid-1992, with the continuing severity of the economic crisis, and the increase in the duration of unemployment, some urban residents are more interested in the possibility now, in late 1993, than earlier.

costs of housing have increased much more rapidly than the average rate of inflation for other goods. The most disadvantaged by the housing inflation are renters and young households who might wish to purchase housing in the future. The asking prices for apartments has continued to be relatively high throughout 1993, but with the collapse of purchasing power, it appears that the market has not operated as hoped in this case. Despite the large number of private construction firms, the construction of housing units has collapsed, with projected figures for 1993 only slightly more than 10 per cent of the level only a few years earlier. This, combined with the conversion of many urban apartments into business offices as well as the restitution of apartments to former owners or their heirs, has led some to make dire predictions about an approaching housing crisis.

In the 1991-1992 period of liberal rule, the government passed laws to *confiscate* or "re-nationalize" certain properties. Best known was the December 1991 bill which confiscated the properties of the Communist Party and other organizations contaminated by their association with the old regime. This included the properties of the former monopoly Bulgarian Trade Union organization. As mentioned above, the heir of this organization was CITUB and had already voluntarily returned to the government two-thirds of the properties it had controlled before 1990. It had also offered repeatedly to share its remaining properties with the other major labour movement organization, Podkrepa. The government did not budge from implementing the confiscation law and ultimately the case went to litigation. Western European labour confederation officials publicly declared their concern over the Bulgarian government's action of nationalizing all of CITUB's property and threatening the leadership with criminal penalties for non-compliance.

The 1991-1992 government actively sought to discover if former communist officials had illegally (even if under previous laws of the old regime) taken financial assets from parts of the public treasury, ministries, or enterprises. The government even engaged international researchers to help in locating the allegedly stolen funds. That government also hoped to reacquire most of the property which it felt was obtained wrongfully through insider dealing and other chicanery. It had little success in locating any such funds or proving the illegality of property transfers.

Both the 1991-92 UDF government and the current government hoped for a rapid growth of *new private enterprises*. Private entrepreneurs have become quite numerous in retailing and wholesaling, import and export, and business and consumer services. Relatively few foreign firms have made large-scale investments in Bulgaria so far, and many of them have only made token investments in order to have some representation in the country. The total foreign direct investment for all of 1991 was only US$55.9 million and the 1992 total actually fell from that level (Economic Survey of Europe, 1993). Policies to promote the development of both domestic and foreign private businesses have been created. The foreign investment act of 1991 was substantially revised in 1992 to make it easier to buy property and make investments in Bulgaria. Profits can be fully repatriated and foreign investors get a tax holiday for a period after investing. Joint ventures with foreigners in manufactures get several years of tax relief. Private enterprises face fewer regulations and red tape than SOEs. In 1992, private businesses filled out only a simple form with a few basic items on it for the tax and statistical authorities, while state enterprises were filling out literally hundreds of detailed forms. There are no wage bill limits for private businesses. Nevertheless, the slow development of the private sector has continually disappointed liberals during the transition years.

In manufacturing, private firms are still very rare. Completely new private manufacturers are even more unique. One might expect this in the face of the collapse of domestic demand. Most foreign investments have been joint ventures and in sectors allowing easy export to sure markets. The cooperatives which have gotten their property back are relatively small in number. Still, some former private owners of establishments have already formed lobbying organizations to protect and promote their interests. The development of private manufacturing faces many hurdles which may hinder its development for some time. The problems include: (i) interest costs of borrowing are perceived as formidable (even if the real interest rate is not large or even negative); (ii) domestic demand for any intermediate inputs and producers' goods will remain dominated by state-owned enterprises for some time; (iii) state-owned enterprises are used to paying their bills at their convenience, so promised payments are uncertain; (iv) business support organizations are relatively new and inexperienced; and (v) production and management skills are in short supply among potential small business people.

4.5 Privatization, reforms, and the "traditional" public sector

This section is concerned with a few examples of services which typically, are publicly provided in developed economies: health and dental care, posts and telecommunications, education and urban public transport.

Health care in Bulgaria since the early 1950s has been a citizen right for the majority of Bulgarians. The villages remained formally outside the health services until 1992 but, through such things as obligatory 3-5 year rural service for new doctors until 1991, were incorporated into national health care planning. The health care system was administratively planned, highly bureaucratized, and had few alternative choices for individuals seeking medical care. Private practice was eliminated in 1972. After then, specialists were allowed to carry on supplemental practice (even at home) for which they were paid overtime compensation by the health authorities.[40] Medical personnel were paid the average salary in the country and still were in 1991 (CSO, 1992, pp. 66-68), but they have perceived themselves as relatively badly paid for their qualifications. Unlike some other Eastern and Central European medical personnel, their incomes may not have been informally supplemented to any large degree beyond their official salaries, although patients felt the necessity to regularly recognize doctors' special status by consistent yet moderate gift-giving (liquor, chocolate, flowers, etc.).

Even today, each Bulgarian continues to be assigned by place of residence to a particular clinic with a regular permanent staff. In the past, employees at larger firms and organizations (a majority of non-agricultural workers) were usually provided with on-site medical care personnel and facilities by their employers. This was to avoid the working day time-consuming visits to doctors in one's residential area and to provide another benefit to attract good employees. Since the increased severity of the economic recession after 1991, many of these enterprise-based health benefits have been eliminated (or reduced) especially during the last year and a half.

[40] Estimates of unauthorized (illegal) private practice from 1972-1989 usually are less than 10 per cent of total services, even including dentistry.

Since 1991, private practice is allowed, but development has so far been relatively limited due to the high cost of setting up one's own clinic.[41] Private care is increasing somewhat in fields which do not require a great deal of high-cost (e.g. imported equipment) investments. The few exclusive, publicly funded medical facilities appear to continue to operate and provide better care and access to certain privileged groups.

Some of the members of parliament have proposed an "American" style private health care system, but there seems little specific knowledge of either this or other health care and insurance systems in market economies — at least among the general public. Debate continues on the nature of health reform. In 1992, proposals were put forward in the Ministry of Health for some sort of employer-funded insurance system to cover a very basic level of health care, although the discussions were not made public. The government in office after December 1993 has been less interested in privatizing the health care system than was the previous government.

According to several doctors and health care researchers, since the fiscal crisis of the mid-1980s there has been a deterioration in health care service. Some research shows infant mortality rising since 1990. There are shortages of medicines and other supplies. These problems are partly due to the reduction in (real) public budget outlays and the elimination of direct health care expenditures by enterprises and other organizations. There are reports of municipal governments who have inadequate budgets to cover the necessary health care expenditures. The Ministry of Finance has had to provide supplemental funding to municipal governments to cover current health care costs.

The current drop in health care most severely affects the chronically ill, infants, older people on fixed incomes who get serious illnesses, and people needing surgery. People needing special drugs have seen prices increase faster than their incomes (in some cases several-fold), although some drugs are still fully subsidized and usually available.

The administrators of the units of the health care system are being trained to adopt "economic management" practices. They now are supposed to engage in benefit-cost analyses for the services they provide. Foreign professors have given courses on health care administration and cost containment techniques.

Unemployment among health workers is minimal. However the total numbers of health workers has decreased during the transition period.[42] The discontent of the public service medical workers has become quite visible. Their demands include higher wages and better working conditions (e.g. more funding for crucial medical supplies and equipment, for medical journals, etc.). This dissatisfaction has led them to take labour action at both the national and local levels.[43]

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[41] Nevertheless, 15 per cent of physicians, and 44 per cent of dentists reported registering for private practice according to the December 1992 census. The actual scope of private practice appears to remain less than these figures might indicate since much of this private practice may be "moonlighting" by doctors and dentists who also work in the public services. There appear to be almost no private full general purpose or specialized clinics (except for private cosmetic surgeries mainly dealing with foreigners, one dating from before 1989).

[42] Official statistics record a relatively small drop in doctors (-4 per cent), nurses (-7 per cent) and the overall numbers of trained medical personnel (-11 per cent) between 1990 and 1992 (CSO, 1993).

[43] A national on-the-job strike/protest (refusal to fill out any paperwork) occurred in mid-summer 1992. The government first criticized and condemned the disruption, then offered a 26 per cent raise.

Posts and telecommunications services in developed countries are usually a mixture of public and private production. Basic postal service still is publicly provided almost everywhere, basic telephone service is developing private ownership forms in a few countries recently (e.g. Britain), and television has seen a great deal of private development in most developed countries in the last decade. When publicly provided, most of the non-television services have most frequently been public monopolies. Until 1989, all Bulgarian post, telephone, and other telecommunications services were parts of a centralized state monopoly.

In 1991, a decision was taken to separate the body which set policy and administered the system, the Communications and Informatics Committee, into two parts, a body to carry out state policy and a company to run the business side. The policy group was renamed the Committee for Posts and Telecommunications in 1992. The managing enterprise became a limited liability company. As of the beginning of 1993, this company was split further, into two separate state-owned companies: one for posts (Bulgarian Mail) and the other for telecommunications (Bulgarian Telecommunications).

Meanwhile during 1991 and 1992, the many parts of the entire telecommunications sector was undergoing demonopolization, as limited liability or joint stock companies were created (out of many units of the former monopoly) which were technologically and economically separable. The chair of the regulatory body stated in 1992 that this was a prelude to privatization, but did not state categorically in which, if any, cases this would mean full (51 per cent or more) privatization. The government decided to defer any decision on the ultimate restructuring plans until a comprehensive assessment of the possibilities and affordable options could be completed.[44] The Committee for Posts and Telecommunications currently envisages services to be provided directly by state-managed units (e.g. probably the postal service), by companies with majority state ownership (probably the telephone services), and by other companies with majority private ownership (e.g. cellular phones, data and information services).[45] In the case of television and radio, the intent is for competition between the public and private sector to co-exist, at least in the immediate future. By late 1993 there were more than forty independent radio stations in Bulgaria and it appears that urban cable television systems will soon spread, since regulations for their activities have been put in place.

During 1993, the telecommunications company contracted separately with several Western companies[46] for immediate upgrading of different geographic regions of the national telecommunications network as well as international connections. The result will be a

[44] Even before 1991, numerous western telecommunications companies had appeared in the country offering the government programmes providing equipment and installation, to significantly upgrade the telephone and telecommunications systems. In 1991, the short-lived Popov government had requested foreign technical and financial assistance in restructuring the communications system of Bulgaria. The World Bank and the European Bank for Reconstruction and Development began collecting information on the existing services, pricing, and level of technical equipment. The EC PHARE programme also became involved in the evaluation, planning, and development. Estimates of necessary investment over several years would be approximately US$1 billion, according to Arthur D. Little consultants (*Bulgarian Economic Review*, 17-30 July 1992, p. 6).

[45] Such a company recently initiated services.

[46] West: Northern Telecom and Pirelli (British/Canadian & Italian); East: Alcatel (French); North: Siemens (German) South: Ericsson (Spanish/Swedish). In addition, international exchange/Sofia: Siemens (German; Sofia ground station: Satellite Transmission Systems (US) (adding to existing Intersputnik system, also near Sofia).

continuing monopolistic system under a regulated state owned monopoly.[47] However, in the fall of 1993, the start of the upgrade was postponed because of Western government export restrictions on equipment.

The process of demonopolization also occurred in the manufacturing units in telecommunications (and other electronics) equipment. This was an important sector in Bulgaria which began rapid development in the 1970's through the purchase of licenses for relatively advanced equipment from West European-based companies (e.g. Siemens, SAT/France, Nera/Norway). Manufacturing of equipment had been one of the specializations of Bulgaria within the CMEA rouble market prior to 1989. Before then, some 80 per cent of output by the state telecommunications monopoly went to the former USSR. Bulgaria was the number one manufacturer in this sector within the CMEA. The government founded a joint communications/computer operation in 1987 for research, development, and production. However, the 1990 collapse of the CMEA and the political turmoil in the former USSR has contributed to causing a severe drop in production and employment.[48] This subdivision of the big manufacturing monopoly has been criticized by some of the managers and other personnel within the sector for causing economic inefficiency. They felt that retention of the big state monopoly would have provided more bargaining leverage and opportunities for creating joint ventures and other economic relationships with Western companies.

Employment in communications services has not deteriorated to any significant extent. There have been a large number of redundancies in public broadcasting, and of course, charges of politicization of the personnel decisions there, no matter who has held government power over the publicly owned media outlets.

Public education has not seen the degree of change witnessed by many other sectors of the economy. However, the traditionally privileged research institutes have been downgraded in importance. Several of the research institutes affiliated with the Bulgarian Academy of Sciences (BAS) were closed down in 1991-1992. The government cut the budget to the BAS which then had to choose how to make up the savings. University and research institute academics were also the targets of the one successful lustration law of the liberal government of 1991-1992.[49]

In the future, universities and other post-secondary institutions will only be given subsidies based on the limited number of students the Ministry of Education decides is appropriate for manpower needs for each degree programme. If universities or departments want to offer

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[47] This is considered necessary, at least by the regulatory committee, since Bulgaria is borrowing half of large amount of money to finance the upgrades. Without continuing monopoly, the certainty of repayment potential could be jeopardized.

[48] Although it is difficult to disaggregate from the published national statistics, it appears reasonably certain that in the electronics sector, at the end of 1992, production was less than 50 per cent of 1989 figures (and much less for specific products) while employment has fallen by somewhat less, to less than 60 per cent of the levels of 1989 (annual averages). Similar conclusions are reached comparing 1990 and 1992, or even end of year figures. (NSI, 1993, 1991.) Even by 1991, this sector was in severe crisis (Schauffler, 1991).

[49] The so-called "Panev" law of 1992 only addressed the offices in universities and institutes (i.e. department or section chairs and above). It required the removal of anyone from these positions who had held an upper-level cadre post within the old Communist Party. In some cases, this meant that untenured faculty were the only eligible candidates for the now vacant positions.

more student places, they will have to rely on themselves (e.g. through fees) to cover any additional costs of enroling more students.

After the 1989 changes, private schools once again are permitted. There are many private schools which are in the process of formation although only a few exist.[50] Some groups are relying on the restitution of former property to re-found schools which existed in the past. Other institutions[51] are developing new programmes to try to attract paying students (e.g. several business/management schools in Sofia alone). The Ministry of Education has a special office in charge of deciding which of these newly proposed programmes will receive a ministry license for the proposed curricula.

Total employment in education has not dropped significantly over the past two years.[52] Teachers in the public schools have voiced complaints at the arbitrary imposition of new standards and working conditions without any substantial discussion with them or their union representatives. In a large number of cases, headmasters have been replaced and have rapidly changed longstanding allocations of work and responsibility. There has been persistent labour unrest, with strikes at individual schools to demand the removal of the new (and even old) management groups. A large number of teachers (especially post-secondary) appear to hold more than one teaching job.

The urban *public transportation* monopoly has been largely deregulated, and new entrants to most markets are permitted. Some private urban bus companies co-exist in several cities (particularly prevalent in the Black Sea towns) with the municipal-managed transport companies. In certain cities the single consolidated transportation company has been deconcentrated into two or more entities on the basis of modes of transport and different kinds of services for the transport network. In some cities, the municipality would control these through a holding company until privatization.[53]

Although there has not been a significant drop in employment in urban transport, these workers have been consistently among the most militant in the country. They helped lead the national strike which led to the fall of the Lukhanov government in December 1989.[54] In the past, people from outside Sofia could gain residency rights by taking a transport driver

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50 At the primary and secondary levels, nine schools with some 500 students operating in the 1992/1993 school year. (NSI, 1993.)

51 An American University in Bulgaria opened in Blagoevgrad when the city government donated the nearly new headquarters of the local Communist Party for the building. In 1992, the school received multi-year, multi-million dollar funding from the US government. The school's fees for students were 15,000 leva the first year (1991-92) and planned to rise to 25,000 leva (130 per cent of the average annual money wage of 1991). There is also at least one private post-secondary school in operation.

52 There have been some changes within the sector. Non-technical university faculty has decreased by 9 per cent from 1990 to 1992 (even while the number of students increased) while teachers at vocationally-oriented secondary and post-secondary institutions have increased. (NSI, 1993.) The Ministry of Education foresees further declines in non-technical university faculty during the next decade.

53 For example, the demonopolization for Sofia, in late 1992, involved six entities in transport (4 bus companies, an electric bus company, a street car company, and a mountain cable lift company) and another six in services (bus repairs, street car repairs, investment, etc). At present, in Sofia at least, there are preliminary plans to create a holding company of the municipality which would hold the direct ownership in all of the dozen separate units now created. The holding company would receive subsidies from the municipality and then decide on the distribution of the subsidies among the separate subsidiaries. Present calculations have the current subsidy at more than 50 per cent of the revenues from tickets.

54 They almost struck again in November 1991 over wage demands of 2,400 leva, but finally settled for 1,800 leva (i.e. their basic wage per month).

position in the city. The relatively high wages keeps job turnover low at present. In the past, before 1989, the workers in Sofia public transport were in the one monopoly union. Today, there are members in the two biggest unions, CITUB and Podkrepa, as well as in at least one other union, which seceded from Podkrepa. In 1991, a national tripartite arrangement led to the creation of a special commission at the Ministry of Transport with representatives of CITUB and Podkrepa. An agreement with the Ministry was signed in the fall of 1991 on wages, benefits and working conditions. Nevertheless, discontent among drivers has continued to rise and in mid-1992 Sofia witnessed a one-day strike that effectively shut down the public transport system of the city. In fact, the strike's causes were complex since it followed on the heels of a public attack by the government on the leaders of the two big trade unions.

Urban transport workers have become very suspicious of the motives behind the decentralization of services and wage bargaining. They are used to a consistent nationwide wage and benefit system and suspect that the government and municipalities have adopted the demonopolization process as a means of "dividing and conquering." Through 1992, the lack of good information about wage settlements elsewhere made local unions more reluctant to sign agreements without long delays to figure out whether the offer was comparable to workers in other urban transport units elsewhere. When other communities have made more generous settlements, this has led to disaffection with existing trade union leadership and caused a growth in the number of different unions representing urban transport workers.

In general, the government which took office after the late 1992 political crisis has been much more moderate in its pronouncements and actions about privatization of public services like health, education, communications and transport. The government and ministries have proposed few if any radical liberalizations (privatizations) of services. This government is much more centrist and takes its lead from traditional Western European practices in the provision of these kinds of services. The government is quite willing to privatize parts of operations, especially in light of the difficult task of government to manage hundreds of entities, but tends to retain in state hands infrastructure and services which are naturally monopolistic or have significant externalities affecting public welfare.[55] One should also mention that the difference between the current and previous governments is really more one of public rhetoric and proposals, rather than concrete actions. When faced with the actual problems in implementing radical proposals, even the previous government and its ministries tended to retreat and adopt more pragmatic tactics.

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[55] An illustrative example is the plan for major port complexes. The Transport Ministry hopes to keep public the major monopolistic elements (port areas, wharves, piers) while moving to privatize "sideline activities" (stevedoring, warehousing).

5. Some microeconomics of the transition: Case studies of Bulgarian enterprises

For a somewhat different perspective on the effects of the transformation process in Bulgaria, this section looks at several enterprises in some detail.[56] Two are industrial enterprises, one is in industrial construction, another is a vocational school, and the last is in health (dentistry).

5.1 The MTP metalworking and machine-assembly enterprise inside the multi-plant ABC firm

During the mid-1980s, the ABC firm was a large successful multi-plant engineering firm producing machines for use mainly in factories and warehouses. The more than a dozen separate production units were brought together into one "firm" (like the relatively successful combinations in East Germany) in the 1970s. The firm was made up of several integrated product "groups" of two or more production establishments. In addition to the manufacturing operations, there were other units in the firm involved in foreign trade, marketing, R&D, and other related services to the firm as a whole. Some of the establishments had existed before the post-World War II period of nationalizations; others were created after the Communist Party took political power. Some of the newer establishments had been developed with the support of the already existing enterprises after the war. In part, by using the expertise of managers and skilled workers (as the instructors of the workers hired in the new plants), new, reasonably effective production units were created relatively more quickly.

By the early 1980s ABC was exporting a large majority of its total output. Most of this went to the CMEA countries but a significant share of the capital goods were purchased by Middle Eastern, African, Asian and even West European countries. The firm was considered a showpiece of Bulgarian industrial development. The firm's annual plans were developed partly in coordination with central planning authorities, but as the firm became more export dependent, plans depended more and more on the specific quantity of export demand which, in turn, relied on successful marketing by the firm's marketing branches. Because of increasing competition from other relatively low-cost producers, customers began demanding a higher standard of quality and reliability from ABC, if the firm wished to keep them as clients.

The different units of the firm had many thousands of workers by the late 1980s. The management of the units of ABC found it more difficult to increase quality or productivity in the constituent plants of ABC during the late 1970s and 1980s. The monopoly Bulgarian Trade Union federation was even asked to participate in developing reforms to improve productivity and quality control. The new labour code of 1986 was greeted enthusiastically in at least some of the separate plants of ABC. In one metalworking and machine building

[56] The first two cases are based on enterprise visits and interviews during 1992. The general situation for both industrial enterprises has not changed significantly, although their economic circumstances (like most industrial firms) have gotten worse in the year since the original analysis. The final three cases were studied during 1993.

plant (hereafter MTP) the workers' organizations took the self-management provisions quite seriously and spent almost two years organizing and holding meetings, and developing programmes for greater worksite and workgroup autonomy. At the end of the lengthy process, an arbitrary decision from either the top of the entire firm ABC or from party officials negated the whole proposal from the MTP workers for substantial worker participation. Since then, the workforce, or at least the active leaders of the workers greet any discussion of "self-management" or "workers' participation" with extreme scepticism.

After the political changes at the end of 1989, there was great uncertainty as to what would happen to the ABC firm. General opinion believed that it would be an attractive purchase for foreign companies. By and large the parts of the firm continued to produce according to pre-existing plans. Export markets, however, quickly began to disintegrate, especially those in the CMEA countries. This was true of the MTP machine tool operation and of other establishments of the large ABC conglomerate. As the excess of labour at MTP and many other industrial plants around the country became more and more evident (especially as inventories grew larger and larger), the government put in effect a tax-based penalty on continuing to employ people of pensionable age (many already collecting pensions) and offered early retirement for workers at a 10 per cent reduction in benefits. In at least one of the units of ABC, the enterprise itself apparently offered to make up the 10 per cent (to a full pension) and almost all those eligible accepted this. MTP also released its pensionable workers.

The governance of ABC and its parts also underwent changes. Under Decree 56 and the Labour Code, one half of the Managing Board of ABC had been appointed and the other half had been elected by the personnel in February 1990 (there have not been other elections since). The personnel (mainly through shopfloor leaders or superiors) of MTP had received information about the whole company and MTP in particular through the representation on this Board. After 1990, the government replaced most members of the Managing Board and thus the Board became dominated by the state appointees. The Director of MTP was appointed by and accountable to the Managing Board of ABC.

As part of government policy, during 1991 the firm was directed to make preparations to become demonopolized. The firm was to be broken up into more than a dozen manufacturing units plus additional units from the overall servicing groups (e.g. foreign marketing division, distribution units located in foreign countries, etc.). MTP would become a separate enterprise.

Subsidies were being reduced continually from 1990 onward. During 1991, the integrated relationships of the several ABC units began to break down. Most of the units were becoming loss-makers as their foreign markets continued to deteriorate, as unsold output continued to pile up, yet workforces were not reduced to the same degree as sales decreases. Thus, wage, benefit, and input costs did not decline proportionally with falls in sales, revenues, or even output.

In the past, MTP had delivered its (95 per cent finished) products to the trading agency unit of the ABC firm, which delivered them to its foreign distributors, who then finished the product for ultimate delivery to customers abroad (who usually purchased on instalment plan). The price paid to MTP was determined by the headquarters of ABC, which then set the final price to customers. With the demonopolization process, MTP could set its own prices for its products in negotiations with the ABC trading unit. However, these 1991 negotiated prices were not paid in a timely manner to MTP, and by late 1991, MTP had stopped filling ABC orders since the management of MTP decided that ABC (that is, the remaining service units still using the ABC logo) was effectively bankrupt. Shortly before this, the MTP manager had been removed by the new government-appointed ABC Board of Directors after worker protests over the growing number of lay-offs (25 per cent of the 1989 workforce), threats of strike action, and charges of financial chicanery about the general manager working in collaboration with the other managers at the remaining parts of ABC. A temporary manager (a former elected shopfloor supervisor) was appointed to take over temporarily, but continued for many months as acting manager. The demonopolization process had created a confusing relationship between (i) the administration of ABC and service units, (ii) MTP, and (iii) other production units of ABC which had input or output relations with MTP.

One of the problems of the MTP relations with the former parts of the ABC group was that some of MTP's supplier (and customer) enterprises were effectively monopolists (monopsonists). Thus MTP was supposed to bargain with them over setting prices, but MTP management felt they faced a "take it or leave it" situation and that negotiating prices was not a real bargaining process. In any case, MTP stopped supplying the ABC trading unit, and by early 1992 was only delivering output to 15 hard currency countries, to credit-worthy buyers.

MTP had reduced its internal divisions from 9 to 3 and was attempting to decentralize production personnel decisions to each of the three shopfloor supervisors. The technology (technical work process) and market demand (sales) would henceforth determine the required number of employees. Personnel appointments were no longer indefinite but good for only one year duration. Some key employees (with crucial skills) might be put on paid leave, but all redundant workers would be required to go on periods of unpaid leave. There was already a substantial use of unpaid leave by the middle of 1991 and this continued into 1992. Workers actually working were only getting the basic wage ("norm") and no extra contractually specified supplements after the end of 1990. One of the problems for 1992 was to develop a separate accounting system at the shopfloor level in order to rationally allocate labour and other inputs among the three sub-units of MTP. Hiring and firing decisions were planned to devolve to shopfloor levels.

In the past MTP had cooperated with more than a dozen small subcontracting establishments (outside of ABC) and they had often sent workers to fill vacant jobs at MTP. But most of the subcontractors had closed by the end of 1991 and the subcontracted work of the past had been brought back inside MTP to provide more work to the now-surplus workforce.

Wages were high relative to the national average in 1989 (about 500 leva a month for the base wage). This was raised to about 750 leva in 1990 and then this was doubled to about 1,500 leva in 1991 where it stayed until the first half of 1992. By late 1992 the base wage moved up to 2,300 leva. These figures overstate the actual money income received by MTP's workers. In the past a substantial share of the total money income came in the form of "compensations" related to a variety of indicators (e.g. hazards, overtime, overfulfilling quotas, etc.). These have been significantly reduced. Thus actual total wage increases have been less than the increase in the base wage. In the spring of 1992, in-kind benefits in the

MTP enterprise were in the process of being reduced and some actually may be eliminated. There were no longer any benefits connected to MTP's affiliation with ABC. The workers still employed have a strong fear of job loss in the coming months unless something changes. They talk of rapid privatization as one thing which might save the enterprise in the short-run. The majority of the employed workers belong to the CITUB union, with a small section of Podkrepa also represented. The rank-and-file of the unions have worked together at the enterprise level, to a large extent, some workers say, even when the national confederations have been at odds.

As far as the plans for privatization of MTP, the new management and workers appear to be in the dark. They would like foreigners to purchase the enterprise, but the equipment and building is relatively old, so that new large-scale investments would probably be necessary. A few foreign investors have visited the enterprise, but no specific offers have materialized, although the new management fears that the offers may go up to ABC or even the government directly. With some upgrading, MTP believes its product is marketable, but is bitter that ABC (and the government) siphoned off all the profits in the past decades and left MTP in its sorry situation at present. The factory occupies prime urban land and this alone could make MTP an attractive purchase, but this asset is likely to be claimed by the old owner or his heirs under the restitution laws. The managers and workers say that, realistically they have no real available funds of their own, but that they might be willing to participate in privatization if they could do it with low cost loans or on an instalment plan.

A study done of the whole ABC firm put forward the idea of privatizing the firm in groups of technically integrated enterprises. This plan also proposes creating companies 70 per cent foreign-owned and 30 per cent held by the ABC parent.[57]

5.2 XYZ chemical plant

XYZ has traditionally produced most of its output (80 per cent) for the domestic market and has only two other domestic competitors. There are a few small private companies which import and package some products XYZ produces, but the price is higher and they are not seen as dangerous competition for the enterprise. The firm has been affected less by the collapse of export markets than many sectors of manufacturing. This is partly due to the fact that its buyers and suppliers in the "ruble market" have been partially preserved by barter arrangements arranged by the enterprise as well as by inter-government negotiations. The enterprise would like to develop more foreign markets, but it has no foreign contacts and no experience doing this on its own. In the past all trade was conducted through a state-owned monopoly trading company.

The plant was built in the 1960s in a medium-sized town. The product line involves standardized products used in construction and as inputs in other manufacturing processes. Since it was created by the state and not through nationalization, it does not face restitution problems in the process of privatization. It was on the initial Ministry of Industry list for privatization in the spring of 1992. However, with the new privatization law of May 1992, the State Privatization Agency had to put together a new list for privatization as stipulated

[57] Several foreign enterprises have shown an interest in parts of the ABC firm especially in 1991-92 period. The difficulties of the privatization reforms plus the slowness of global growth has reduced the interest in machine manufacturing in Bulgaria (and other countries). There is less talk in 1993 of ABC as the "star" of Bulgarian industry or of protecting it from unscrupulous foreign investors who would like to "steal" it at a bargain price.

in the law. XYZ management believes they need a foreign investor since they would like to develop new product lines and improve the existing ones. They feel the best way to do this is with outside (foreign) expertise.

After the enterprise was placed on the Ministry list, the staff held several meetings to discuss the future privatization, but lack of any details prevented any discussion beyond the basic idea of privatization. The enterprise became a state-owned sole proprietorship (limited liability company) in 1991. Its General Director is appointed directly by the Ministry of Industry. There is no substantial worker participation in the operations of the enterprise, only occasional informational meetings initiated by management. Three unions are represented in the enterprise. Among production workers, CITUB and Podkrepa are both well represented. Edinstvo also has members but most of these are managerial and administrative staff workers. During the 1991-1992 period, Podkrepa was perceived by some as the most influential union in terms of getting management to respond to workers problems and concerns. This was attributed by one manager to Podkrepa's close connections to the UDF-dominated parliament. In 1991 and 1992 there was collective wage bargaining over wages and working conditions mainly between Podkrepa and CITUB and management. There was a substantial wage increase up to 1,700 leva per month for the base wage. This was increased again later in 1992.

The plant had over one thousand workers in 1989, and by the spring of 1992 the number had dropped almost 20 per cent. Management said that there was still almost 50 per cent excess labour given current market demand for the products and potential increased labour productivity. Workers are afraid of redundancies and fear being outspoken because they feel that this will single them out for the next round of lay-offs.[58]

5.3 BEL industrial construction enterprise

BEL is a enterprise specialized in industrial construction projects. It is located in a medium-sized town. Formerly the unit was a part of the huge metallurgical conglomerate whose main plants are located nearby. During the 1960s and 1970s the construction unit expanded rapidly, especially during the periods when Bulgaria was giving priority to heavy industry development. At its peak in the late 1960s the unit had several hundred employees, most of whom were involved in actual construction work. The unit gradually shrank during the late 1970s and 1980s until it had approximately 200 full-time employees in 1989. With the political changes following 1989, construction activity in heavy industry shrank rapidly. By 1991, even partially completed projects were being cancelled or suspended. In 1991-92 as part of the government's corporatization and marketization strategies, the construction unit was separated from the metallurgical conglomerate and became a formally independent unit.

The transition years have brought only a continuing decline in the level of employment at BEL. As the crisis in heavy industry has persisted and even worsened, many manual workers have drifted away from BEL. The former parent enterprise, which in the past used the majority of BEL's production staff, presently has little need for any new construction. Some repair work is available, but there is no certainty that the big plant will be able and

[58] The fortunes of XYZ have continued to decline. More layoffs occurred in late 1992 and 1993. The domestic market for its products has further declined due to the continuing decline of manufacturing and the collapse of construction in 1993. There has been little progress in the privatization process concerning XYZ.

willing to pay for any work done. It has taken many months or, in one case, more than a year to receive payment for some work done. The enterprise management has looked for other markets, and on occasion has found some building work, but has little experience in marketing its services or in many of the types of construction which are currently desired. Moreover, by late 1993, the construction industry in general was in extremely poor shape, in part caused by the severe decline of the housing construction.

There is a much larger proportion of the administrative staff left than workers. Most managers feel that most of them are unnecessary for the current level of operations. Their options for alternative employment are limited. The highly skilled construction workers tended to leave the company earlier in the transition years, mostly to join other state enterprises, but in some cases ending up with private construction companies. The rate of workers leaving the firm accelerated in 1993, since they have not received full wages for several months. There have not been many lay-offs in the last couple of years. Mostly the exits were voluntary; the earlier leavers hoped to find better paying jobs. Now, workers leave in order to try to find jobs offering wages at the national average.

The general manager is a holdover from the pre-1989 period. There is still an annual plan made up for the enterprise. It appears to be even more speculative than in the past, since the enterprise cannot depend on other enterprises' plans for construction in the ongoing depression. Nevertheless, if the enterprise, or work unit, fails to fulfil the monthly plan, then a percentage of workers' base wage is cut. In the spring of 1993, the cuts averaged 17 per cent. If, however, the annual target is reached, the workers receive back all the wages which were cut previously in the year. Wages of employees are set approximately according to national norms (averages in the sector). At present this exercise appears to be only a hypothesis of what people ought to receive. By the summer of 1993, in fact, the employees were only receiving half of salaries due, since the enterprise did not have enough cash to pay people any more than this. There is a general air of despondency among the administrative officers, who feel that there is little hope for the revival of the enterprise until the general economy, and particularly major industries, start to rebound. Few employees express much enthusiasm for the possibility of paying for shares in their enterprise if it should be privatized. They have not heard anything about what the intentions of the government are concerning the enterprise.

5.4 PTS Technical School for Mechanics

The PTS Technical School is located in western Bulgaria in a city with many manufacturing and large-scale industrial enterprises. PTS was founded in the 1950s during the post-war industrialization activities in the region. During the communist period the school operated by making contractual agreements with enterprises in the area to train young people to become mechanics and eventually to work in the local enterprises. The local enterprises which used the services of the school in the past currently refuse to conclude any fixed agreements with the school. As in the pre-1989 period, wages for the teachers continue to be set according to the national educational norms.

Up through the early days of the post-communist era, teachers at PTS had the possibility of supplementing their income. In the practical training portion of the students' mechanical education, the contracting enterprises would supply the school with materials (sometimes equipment also). The students were required to produce goods (or modify the materials) in a prescribed way. Depending on the quality and quantity of work done, the students could receive up to one-third of the net revenue from their work (sold by the enterprise after completion). Teachers who took part in this agreement also got a share of the net return and were able to supplement their regular wages. The number of these agreements has declined steadily since 1989; currently, no enterprise wishes to engage in one.

The wages of the teachers were somewhat lower than the national average in the pre-1989 era (they earned about 210 leva a month in 1989, supplemented by student production earnings). The teachers' wages have lagged even further behind the national average since the liberalization of early 1991. In July 1992, they got a raise to 1,700 leva, then to 1,900 leva in the following December. As of March, 1993 they were to receive 2,411 leva per month. However, in mid-summer 1993, they were still receiving their pre-March salaries, and they were quite angered by the failure to change, even though they were promised that they would eventually receive the additional monies to make up the difference from March through the summer. All the workers complain about the effects of inflation on the buying power of their wages, saying that it is only enough for food and other basics of survival. They have stopped activities which used to be part of their lives in the pre-1989 period. Some now skip vacations and spend much of their spare time working in the countryside cultivating vegetables and canning — at their own cottages or with relatives. They say they have stopped entertaining friends at their houses. They do not feel they can spare the income to play the properly generous Bulgarian host; they prefer to avoid the embarrassment of this even though it depresses them.[59]

Most teachers at the school signed the nationally circulated teachers' petition calling for more state budget allocations for better teachers' salaries, higher stipends for scholarship students, more modern equipment and other educational supports. At PTS the teachers feel that the equipment they have is outmoded and hinders them in trying to keep abreast of new technologies in industrial workplaces. There are few teachers at the school below the age of 40, with most in their late 40's. They counsel their children and other young people to stay out of teaching because of the low wages and because in the new economy there seems to be little prestige or other compensations for those practising the profession. Most of them feel they have few other alternative work possibilities in the foreseeable future. They see little or no market for their skills. Any new job opportunities will be quickly seized by one of the many highly trained engineers already laid off by other failing enterprises in the area.

5.5 DDS dental clinic

The DDS dental clinic is located in the centre of one of Bulgaria's major cities. At the beginning of the reform period the dentists in the clinic were (like all dentists) employees of the municipal (state) health system.[60] The pre-1989 system of dental care was centralized and bureaucratic. The dentist-to-population-served ratio was approximately the same for each dental office. The local government paid each clinic a sum of money based on a formula.

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59 This is not an unusual comment. The journal of the Institute of Sociology did a special issue "Poverty, Unemployment, and Social Policy in Contemporary Bulgaria" and several articles point out the important changes in both consumption and social activity engendered among a majority of the population by the economic crisis (*Sotsiologicheski Pregled*, 1993, No. 2).

60 As mentioned before, by the end of 1992, more than 40 per cent of the country's 6,000 dentists claimed to be engaged in private practice.

The most important amount of the allocation was a direct function of the number and type of employees in each clinic. This meant that the state was paying all the clinics in the country the same amount per capita for each potential patient. Municipalities' total budgets depended on allocations out of the national budget on the basis of population size and other criteria. As the economic crisis came on the horizon after the fall of communism, municipal councils were asked to consider how to reform the health system and to save money on health care.

At the beginning of the transition period, throughout the country there was a wave of dentists flowing into private practice. However, numerous financial scandals and horror stories of poor treatment and incompetent staff led the public to quickly become very wary of private dental care services.

In 1990-1991 a group of dentists and administrators came up with a proposal to set up a new clinic which would be managed differently. The municipal government would pay for the clinic on the basis of the work actually performed. The initiators argued that this new system would stimulate both efficient use of state funds and give better incentives to dental workers. In order to establish the basis for this type of compensation for the clinic, a study was done of dental services and public expenditures to establish several indicators: the cost per dentist (including materials and support staff), the average amount of work performed, and, hence, and the cost per treatment. There were different amounts of points for each type of dental treatment and thus one could calculate the amount of points (i.e. work accomplished) per dentist and what the state's cost was for each type of treatment. The new clinic, it was proposed, could at least do this well, and the founders argued that they could do even better.

In 1991, the municipality agreed to have this new clinic set up as an experiment in health care reform. A building was found to set up the clinic and financing was provided. A lengthy and rigorous competitive process was set up to select the highest quality professional staff for the clinic.[61] The clinic began operations in 1992 and was able to acquire modern equipment, much of it from the West.

There were about 75-80 total staff who began working with the clinic, 20 of whom were dentists. In the year and a half of its actual full-scale operations, only 4 professionals have left DDS (3 of the dentists), most emigrating to the West. The productivity of the clinic's staff is currently about two-and-a-half times the national average.[62] Extensive computer-based records are kept of each dental treatment at the clinic so that the total cumulative points of service provided by each dental team is available at any time. A printed comprehensive accounting is provided to each worker every three months. This includes a detailed record of each worker and the number of each type of procedure he or she has participated in providing.

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[61] Some of the staff were appointed without going through this competitive process.

[62] Initially it was 3 1/2 times the average, but after some time the staff decided that this was too much to do and still retain quality care as well as a congenial work environment.

Whereas the traditional clinics in the municipality use 66 per cent of the government allocation for salaries, in the DDS clinic 51 per cent goes for salaries.[63] However, due to the greater income received (because of the much larger total services provided), the DDS workers receive much higher personal incomes. The clinic is also permitted to engage in private services to clients paying out of their own pocket, and this also generates supplemental income. Since the clinic staff works in teams, the non-dentist workers' wages depend on the amount of points (adjusted by a skill/job classification factor) of services they help to provide.

The DDS clinic also established a warehouse to supply itself with materials which it buys at wholesale prices — 10 per cent lower than it would otherwise pay. The clinic also registered as a company since it imports most of its materials. This operation also ensures adequate supplies are on hand at all times. It also has a shop where it sells materials to other dentists (mostly in private practice). The clinic earns profits from this activity which serves to supplement staff members' incomes.

Each dental service provided is diligently recorded — in 3 copies. One goes to the dentist doing the procedure, one to management for the computer records, and the third goes to the patient. In Bulgaria, patients have traditionally been given no record of treatments received. At DDS, if a procedure has been improperly done, or if complications arise following treatment, the patient has a paper record of the service listing the service provider. Apparently this has been a public relations windfall for the DDS clinic. In addition, each patient has a permanent personal record file kept on the computer filing system at DDS. For many decades, Bulgarians have faced indifferent or hostile service workers. Looking out for the interests and fears of clients is still relatively unusual in everyday life.

The governance arrangements at the DDS clinic are also somewhat unusual. The Management Board of DDS is 49 per cent elected by the employees of DDS (voting as a bloc) with 51 per cent appointed by the municipal authorities. This Board appoints the General Manager, who has a managerial contract with the city mayor for a fixed salary. A Medical Council of outside experts monitors the work to help ensure quality and professionalism.

As of the middle of 1993, there was no other similar experiment like this. According to the staff of DDS, the Ministry of Health wants to have all other clinics adopt the DDS model; even West European experts have begun to hear about the experiment and to visit DDS offices to find out more. The management staff also talks about their hope for a possible employee buy-out of DDS some time in the future, although they are not sure that all of the workers would want to participate. The management group wonders whether only the professionals ought to take part.

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[63] The DDS clinic spends 26 per cent of its gross income on medicines and materials versus 8 per cent in traditionally managed clinics. Maintenance costs are about a quarter of costs in both the DDS and other clinics.

6. Conclusion: Complexities of economic transformation, privatization, and the Bulgarian case

6.1 Separating the effects of privatization from other economic changes affecting labour markets

At present, it is scarcely possible to separate out the effects of the privatization process on employment, labour markets, and economic welfare in Bulgaria. There are many complications involved in the matter. First, there are many changes occurring simultaneously in the Bulgarian economy, all of which have some impact — direct or indirect — on the labour market. Second, "privatization" must be precisely defined.[64] Third, relatively few of the state assets have so far been fully transferred to private ownership; identifying the quantitative (and perhaps, qualitative) effects of an incomplete, ongoing process requires more subtlety and detail than the available data provide.

Here we only review the first problem, by simply reiterating some of the main changes which interfere with identifying the effects of privatization *per se*.

External changes affecting employment and privatization:

(i) General slow growth in the world economy during the whole period of transition up the present;

(ii) Collapse and disintegration of the CMEA "ruble market" and evaporation of traditional demand channels for Bulgarian exports;

(iii) Continuing reluctance of Western economies (especially the crucially important European Union) to fully open their markets to countries in Central and Eastern Europe (especially reluctant to an opening in agriculture, processed food, heavy industry — important products in Bulgaria);

(iv) Wars and attendant economic dislocation (e.g. blockades) in the Middle East, Yugoslavia, Moldova, Georgia;

(v) Sudden exposure to world market prices for energy imports and other crucial raw material inputs;

(vi) Reduction in trade credits, and limitations on banking services for Bulgarian exporters due to a moratorium on foreign debt servicing (beginning spring 1990; perhaps ending with the agreement with foreign creditors late in 1993);

[64] Our broad definition described above (section 4.2) includes not only the actual transfer of current state assets, but also the creation of the necessary environmental conditions for a reasonably functioning market economy as well as the creation of privately owned, independent enterprises — both domestic and foreign.

(vii) Intense competition for foreign investors from large-scale privatization projects in dozens of other countries in all regions of the world;

(viii) Huge demands from many other transforming or restructuring economies on the limited resources of international financial and aid agencies (as well as on traditional countries involved in bilateral aid).

Domestic economic policy changes important for the economic activity of Bulgarian enterprises:

(i) Rapid price liberalization (price "shock") and profound shifts in relative prices domestically since February 1991;

(ii) High rate of inflation since February 1991 and difficult-to-forecast future inflationary developments;

(ii) Restrictions on credit expansion, high nominal interest rates, initial reduction in real money supply;

(iii) Reductions in budgetary subsidies to certain sectors. Shifting of continued, limited subsidization from some sectors to others;

(iv) Quasi-market-determination of foreign exchange price and frequent interventions which effectively ration inadequate foreign exchange among importers (especially important for enterprises dependent on foreign inputs);

(v) Price freedom (within certain restrictions which limit the increase in the rate of profit) for state-owned enterprises.

Changes more closely connected to privatization which differentially affect enterprises' economic opportunities and managers perceptions:

(vi) Demonopolization and corporatization of state enterprises, involving the breaking up integrated multi-establishment firms. Sometimes, the creation of smaller monopolies or oligopolies in place of bigger, directly state-controlled monopolies. Occasionally, the recombination of these supposedly independent units into holding companies;

(vii) Theoretical autonomy for firm management, but ad hoc and frequently unpredictable intervention of government/ministries in management. Possible politicization of enterprise affairs and management appointments (by government, political parties, unions/workforces). Potential for intervention of workers to seek management dismissal, government subsidies, re-regulation, etc.;

(viii) Separation of exporting/marketing functions from subsidiary production establishments as big conglomerate firms are broken up into several smaller units. Recombination of some of the units into new foreign marketing operations. Inexperienced management teams in demonopolized units have faced problem of marketing;

(ix) Generalized insolvency in state-owned productive sector. Yet, very few outright liquidations or bankruptcies. All/most enterprises owe money to each other, to the government, to the tax authorities, or to the (primarily) government-owned banking sector. Unreliability of revenue flows from contracted work or deliveries; enterprises/agencies simply defer payments;

(x) Very uncertain incentives, as privatization lies ahead but will be carried out in an incompletely predictable time frame and manner (at least, for each individual enterprise). This, in part, is one effect of the instability (or inconsistency) and polarization of Bulgarian political life and institutions.

To add to these factors which complicate the analysis, at present there is no control group which might be used as a benchmark — for assessing the independent effects of policies, external changes, and the internal dynamics of the privatization process. The typical private establishment differs in several ways from the state sector. The current private sector enterprise tends to be much smaller, more independent of other economic units, faces a different tax regime, has new subsidized consulting agencies (with aid from foreign experts) being set up specifically to aid private business development, and has no wage rate restrictions. Most private firms are not in manufacturing. Only as full privatization occurs in more cases and in more sectors can a more complete story be told, and perhaps specific effects of full privatization be identified more adequately.

6.2 Lamentations on observing the Bulgarian transformation

Thus, the external and internal constraints on the Bulgarian process of social and economic change have been enormous. Observing these analytical problems alone should make economists much more humble about their profession's knowledge and their own wisdom.

Shortly after the fall of the old system, many anti-communist Bulgarians took to saying that they required a rapid transition to the free market model because they had just lived through a 45-year "experiment" and did not want another one which might try to gradually create some sort of "mixed economy." In fact, the Bulgarians had no choice in the matter. They were going to get an experiment whatever path they chose to take.

All economies are "mixed" in their own particular ways. There was no precedent to follow, only specific histories — from other places and times, and set in the context of particular social patterns. Knowing these histories might help people to avoid some mistakes of the past and give them some indications of the choices available. For the liberal advisors (and much more understandably, for the radical anti-communists who had actually lived within the old system) there was little time to ponder these complex issues. It seemed necessary to do everything rapidly. The old system had been growing for decades and had to be pulled out by the roots. If not, it was feared it would reappear. Perhaps separating the political purposes from economics at such historic moments will always be impossible.

During the transition, successive waves of economists have come to offer their favourite panaceas to the Bulgarians. Some came hoping to do experiments with a whole country as a laboratory. Some came with huge amounts of money which they might or might not dispense. These foreign economists have strongly influenced the political decision-making process guiding the transformation. Their advice had to be seriously considered, if only for pecuniary reasons.

Western advisors should remember that — after all is said and done — it is the Bulgarians themselves who will have to live with the successes and mistakes. The consequences are theirs to enjoy or bitterly lament. Perhaps something analogous to a "hard budget" is needed for foreign advisors themselves.

The unfortunate result of the decisions and politics of 1989-1993 may be that the obstacles hindering a successful economic transformation are now even greater than they were at the beginning of this period. At that time, hardly any Bulgarian of influence defended the old economic system; everyone wanted a market-based economy.[65] As one thoughtful Bulgarian said, probably the main error was to imagine that by creating space for market activity (a vacuum), a new entrepreneurial economy would spontaneously arise and fill it.

The culture, history, and philosophical foundations of a society are critical in influencing what develops in such a vacuum. Policies can guide developments, but if they fail to take account of the actual society they seek to influence, they are bound to lead somewhere other than expected. The liberal policies of 1991-1992 envisioned the development of a free market economy — something that had developed nowhere else.

6.3 Tentative conclusions on the lessons of transformation policies in Bulgaria

In the first year after the 1989 events, the inertia of the old system kept the economy operating much as in the past. In 1991, the emphasis was placed on macroeconomic balancing, accompanied by the sudden freeing of prices, exchange rates, and trade rules. During 1991-1992, the state tried to withdraw from active direction of state enterprises, while simultaneously hoping for propertyless managers (facing unknown rules and regulations) to imitate the property-owning capitalists in economies where rules are enforced relatively consistently. The SOE managers *did* imitate the drive for personal gain and security of Western business people, but in the Bulgarian context this translated into many severely negative social consequences. Janos Kornai was surely right in *The Road to a Free Economy*, when he emphasized the absolute need for "real" property ownership for those who might try to transform the old SOEs of communist systems. Otherwise, any potential value of the existing SOEs might be dissipated by pure opportunistic behaviour. This was predicted by other analysts as well; to a large extent it has occurred in Bulgaria.

For economists, it is not the opportunism itself which was "wrong" or "bad." Rather, it was the absence of appropriate constraints to guide this opportunism and turn it into socially beneficial results. This is simply the lesson of Adam Smith. Capitalists will destroy an economy if their behaviour is not constrained by competition, by regulation, by guidance.

Let us try to be quite clear and concrete and provocative, from here on — but briefly.

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[65] In interviews of Bulgarian economists advising all the major political parties before the 1990 elections, it was striking to hear the same generalities and policy proposals from all parts of the political spectrum.

— Do not give shock treatment to state-owned economies. Or at least not until one can be very sure that constrained and truly autonomous economic agents exist. They must be constrained to effectively respond to the results of price movements. The constraints (e.g. competition, enforceable and enforced rules, visible and predictable benefits and sanctions) must effectively operate; otherwise, smart people will find out how to avoid the sanctions and grab the most easily obtainable and least risky benefits. Nothing is more obvious for opportunists than appropriating already existing values.

— If shock therapy is chosen, then the state property should be given away. Shock therapy requires rapid privatization. This should occur even *before* the shock.

— Usually, the people who have the most to gain and the most to lose from the fate of an existing enterprise are the people whose lives are most tightly connected to it. These are the workers and managers who work in it.

— Unless there are buyers waiting at the door, give the enterprise away to the workers and managers.[66] They probably need help in creating a workable governance system so that they can get on with the business of producing.

— Do not give *anyone* permanent control over an unregulated monopoly or quasi-monopoly which makes products or services someone or some enterprise or some public agency *has to* buy. The monopoly enterprise will eventually exploit its position, no matter who is in control of it.

— Make these enterprises truly autonomous. Make the new owners clear about what they will lose if the enterprise dies (e.g. jobs, a very moderate portion of their pensions, unemployment benefits, etc.). Nothing is free in life; and, this will engender a more serious and conscientious effort to succeed.

— Perhaps keep a minority government stake in the companies. Make the owners' dividends a function of employees' total compensation levels *and* profitability. This can be used to help compensate those workers and citizens who are offered nothing in the privatization game.

— Do not withdraw the state from the micro-economy and meso-economy in the transition. Historically, successful market economies have not developed in a vacuum. More attention ought to be given to the Japanese and East Asian processes of economic development, as well as to the last decade of Chinese economic reforms. Financial issues and institutions are social organizations which take years to create and adopt appropriate regulations for.[67]

— Develop a coherent set of industrial policies to stimulate production, investment, and employment. These policies should also identify and take account of the constraints from trade barriers which may persist over the medium term, even if one can imagine

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[66] This is argued more expansively in Rock (1993).

[67] If a freer capitalism is desired, take lessons on it from its more moderate advocates like J.M. Keynes, Hyman Minsky, and Ronald MacKinnon rather than from monetarists and many in the IMF.

them decreasing in the longer term. As the Japanese (and others) have shown, comparative advantage can evolve over time and be guided by government policies to do so in different ways.

These lessons/proposals should be criticized and debated first, not simply adopted. They may be wrong.

Table 2. Annual average employment level by sectors and year-to-year percentage changes in annual average total unemployment (1989, 1990, 1991, 1992)

	Annual average number of persons (000s)				Percentage change in average annual employment			
	1989	1990	1991	1992	1989-90	1990-91	1991-92	1989-92
Industry	1 646	1 498	1 230	1 057	-9.0	-17.9	-14.1	-35.8
Construction	361	337	253	206	-6.6	-24.9	-18.6	-42.9
Agriculture	789	735	679	542	-6.8	-7.6	-20.2	-31.3
Forestry	25	22	18	17	-12.0	-18.2	-5.6	-32.0
Transport	247	242	223	199	-2.0	-7.9	-10.8	-19.4
Communications	44	45	44	42	2.3	-2.2	-4.5	-4.5
Commerce	395	372	343	315	-5.8	-7.8	-8.2	-20.3
Other kinds of material production	25	29	28	26	16.0	-3.4	-7.1	4.0
Housing, public util. and services	97	92	80	74	-5.2	-13.0	-7.5	-23.7
Science/research	97	91	67	53	-6.2	-26.4	-20.9	-45.4
Education	277	273	268	261	-1.4	-1.8	-2.6	-5.8
Culture and art	46	47	38	33	2.2	-19.1	-13.2	-28.3
Health, sports, tourism	215	221	207	202	2.8	-6.3	-2.4	-6.0
Financial services	26	25	27	33	-3.8	8.0	22.2	26.9
Administration	62	54	50	47	-12.9	-7.4	-6.0	-24.2
Other services	16	14	9	6	-12.5	-35.7	-33.3	-62.5
Total employed	4 365	4 097	3 564	3 113	-6.1	-13.0	-12.7	-28.7
Unemployment								
End of year	—	65.1	419.1	576.9				
Annual average	—	45.9	255.4	—				
Average labour force	4 365	4 161.9	3 721.8	3 689.9	-4.7	-10.6	-0.9	-15.5

Sources: (1) National Statistical Institute. 1993. *Statistical Summary*. Annual average unemployment for 1990 for last six months of year. Labour force is the sum of total employed and registered as unemployed.
(2) National Statistical Institute. *Statistical Summary*, 1992, pp. 59-763; and 1991, pp. 14-16;
(3) Ministry of Labour and Social Welfare, unpublished data, 1992;
(4) National Statistical Institute. *Statistical Reference Book 1993*.

Table 3. Bulgarian unemployment and employment, July 1990 - October 1993

Data: End of month (1)	Registered unemployed at labour exchanges (2)	Vacancies listed at labour exchanges (3)	Employment (000s) (4)	Rate (per cent) of unemployment = (2)/(2 + 4) (5)
1990				
July	31 030	58 220	3 880	0.8
September	38 992	42 125	3 843	1.0
December	65 079	28 386	3 832	1.7
1991				
March	124 062	7 746	3 404	3.5
June	233 724	16 490	3 291	6.6
September	343 345	18 486	3 121	9.9
December	419 123	9 994	3 000	12.3
1992				14.2
March	452 564	11 955	2 727	15.1
June	475 822	10 725	2 679	17.2
September	538 709	11 081	2 594	19.1
December	576 893	7 092	2 446	21.8
December Census	680 228	—	—	
1993				
March	604 490	—	2 348	20.5
May	592 007	8 302	—	—
September	598 563	12 862	—	—
October	602 458	9 050	—	—

Sources: National Statistical Institute, *Statistical Reference Book*, 1991, 1992, 1993; NSI, *Statisticheski Izvestia*, 1992; OECD, *Short-Term Economic Indicators: Central and Eastern Europe*, 1992, 1993; Ministry of Labour and Social Affairs, unpublished data, 1991, 1992, 1993, Sofia.

Appendix

Main Features of the Privatization Act of April/May 1992

Jurisdiction of Act

1. Transformation of state-owned enterprises into single-person (state) commercial companies.

2. Sale of parts or the whole state company to private (juridical) persons. [A.1]

I. Administration and governance rights

Who makes the decision to transform a state enterprise into a commercial (state) company? (preparing it for later privatization, within no more than five years after transformation) [A.17, 19]

— The Council of Ministers (if the book value is more than 10 m. leva, then the SPA gives an opinion on it).

Authority of organizations involved:

1. Council of Ministers (*CM*) (Cabinet):

— Approves annual programme of privatization from the SPA. [A.2]
— Appoints/dismisses 5 members of SPA Supervisory Board. [A.12]
— Submit annual report to parliament on implementation of the privatization programme (along with budget) [A2]
— Enforces the privatization law. [Cl.17]

2. National Assembly (*NA*), the Parliament:

— Appoints/dismisses 6 members (majority) of SPA Supervisory Board. [A.12]
— Debates and passes the Annual Privatization Programme along with the Budget Act. [A.2]

3. State Privatization Agency (*SPA*), a state authority:

   a. Supervisory Board: 11 members (5 appointed by Council of Ministers; 6 elected by Parliament) with overlapping 4-year terms. To set rules, approve transactions, elect/dismiss and set salary of the Executive Director and chiefs of the regional offices. [A.11,12,13]

   b. Executive Director: Organizes, directs, represents agency. May not hold any other paid position, save teaching or research. [A.14]

Who makes decisions to privatize? (And carries out the sale, or gives someone else the right to make the deal). [A.3]

For different cases:

— State-owned enterprises with book value less than 10 m. leva: State agency authorized by Council of Ministers.

— State-owned enterprises with book value more than 10 m. leva: State Privatization Agency.

— State-owned enterprises with book value more than 10 m. leva: State Privatization Agency with prior approval of the Council of Ministers.

— Municipal-owned enterprises: The relevant Municipal Council.

Who makes decision on how to sell the enterprise? [A.20,21]

— The same as above.

Who may propose (to get the process moving) *that a decision to privatize be taken*? (and must have the issue be formally considered) [A.4]:

— Management body of an enterprise;
— Majority (vote) of workers in enterprise;
— SPA, in cases it does not already have jurisdiction.

Requirements of "annual privatization programme" [a.3]:

— Minimum number of privatization targets, specifying which enterprises and priority sectors;
— Expected sales revenues;
— Uses of the revenues;
— Expenses;
— List of enterprises and/or sectors which will not be privatized in full or in part;
— General guidelines for municipalities' privatization policy.

II. Revenue from sales of state properties

Who/what gets the money from the sales of state enterprises? [A.6]

1. Revenues from sale of state enterprises:

— Fund for covering expenses of privatization process;
— 30 per cent to support Social Security funding;
— 10 per cent to maintain the Agriculture Assistance and Development Fund
— 20 per cent (in cash or shares) to the Mutual Fund which the Council of Ministers may disburse to:
  — social security funds;
  — providing Bulgarian citizens free purchase of privatized enterprises;
  — compensate former owners (who had their property nationalized in the past);
  — for other purposes set out in the annual privatization programme, including the State Fund for Reconstruction and Development.

2. Revenues from the sale of municipal enterprises:

— 30 per cent for social security funding;
— 20 per cent to the Mutual fund (same uses as above);

— Remainder in special fund of the municipality for priority use to cover bad debts of municipal-owned enterprises and for investment purposes. Not allowed to cover current expenses of government.

Who evaluates the worth of enterprises to be privatized?

— Licensed experts (by the SPA and the Minister of Finance). Based on procedures and criteria approved by the Council of Ministers. [A.16, Cl.12].

— These appraisers have access to any and all relevant information from the company.

III. Buying enterprises

Who may not participate (buy) in privatizations?

— Members of Supervisory Board, the Executive Director, office holders in the SPA (if rules are issued prohibiting it), the members of the Council of Ministers, nor any family members (spouse and children). No one acting through a "dummy" [A.15; Cl.4; Cl.5]

— Also, no company in which the state or municipality already owns more than 50 per cent (except with written permission from the SPA or the relevant municipal government). [A.5]

Who gets to buy enterprises at reduced prices (preferences)? [A.5]

1. Workers with minimum of two years work at enterprise.

2. Workers of the past 5 years who were laid off through no fault of their own (i.e. under Decree 57).

3. Retired workers (retiring no more than 10 years before), who worked at least three years.

4. Any former worker who is disabled due to work at the enterprise in the past.

5. Former owners of all or part of the enterprise's assets (prior to the nationalization without compensation) who apply, may receive a proportional share of the assets (equal to value lost) [A.18]

How do the preferences (buying at reduced prices) work?

In general, the Council of Ministers will set up the procedures which must accompany the following rules. [A.22, 23, 24, 33]

1. For (state) Joint Stock Companies [A.22]:

— maximum amount one person can buy is 20 per cent;

— shares sold at 50 per cent discount (calculation method decided by Council of Ministers);

— maximum amount of money saved (i.e. reduction in payment) by one person is equal to:
8 months total wage (employed less than 5 years)
10 months total wage (employed 5 to 10 years)
12 months total wage (employed more than 10 years)
(wages are adjusted for inflation)

— workers must buy the shares within 3 months after beginning of the sale of the enterprise;

— shares bought this way are registered and non-voting for the first three years of ownership;

— if the value of a wholly state or municipal-owned enterprise is less than 10 m. leva, then the method in (3) below may be used [A.33];

— these shares purchased for a reduced price are non-voting shares for 3 years [A.23].

2. For (state) Limited Liability Companies [A.23]:

— a group of workers may buy only a total of 20 per cent of the ownership in the company;

— a special meeting is held of workers who wish to purchase part of the company; here they decide how much each will contribute to do so;

— price paid is 50 per cent of the value (based on Council of Ministers procedures for evaluation);

— total amount of discount is no more than the sum of all the wages of the participating workers in the same way as for a joint-stock company, above;

— if the value of a wholly state or municipal-owned enterprise is less than 10 m. lava, then the method in (3) below may be used [A.33];

— the ownership stake purchased for a reduced price is non-voting interest for 3 years [A.23].

3. For untransformed state- or municipal-owned enterprises (i.e. they must be bought as a single unit) [Ch.6]:

— must have more than 30 per cent of employees wishing to participate in the buy-out in order to make a bid;

— if the employees win the bidding for the company they get a reduction of 30 per cent on their winning bid;

— maximum total reduction in cost paid is same as in case of state joint stock company;

— if it is a manufacturing company, then the payment may be in instalments, with the outstanding amount owed to be charged the "base" rate of interest (if this is agreed to by the selling authority);

4. For a bankrupt state/municipal company:

— the same as number 3 above (after settling with any outstanding creditors)

How must the enterprise be paid for?

— In principle, it is determined by the Council of Ministers;

— With the consent of the Minister of Finance, citizens and permanent residents may pay in instalments [A.29];

— If a manufacturing company bought by workers, the selling authority can agree to instalment purchase;

— Creditors of a privatized enterprise can exchange this debt for equity in the enterprise;

— Buyers must declare the origin of the funds with which they pay for the state assets; false information is a criminal offense [Cl.9];

IV. Selling the enterprise

How can the enterprises be sold? [A.25]

By one method or a combination of the following, for:

1. (State) Joint Stock Companies by:

— open offering of shares to the public (only if approved by SPA);

— public auction of blocks of shares;

— publicly invited tenders (bids to buy shares);

— placement of shares with potential investors.

2. (State) Limited-liability companies by:

— invited tenders (bids);

— placement with potential investors;

— public auctions;

3. Untransformed state- or municipal-owned enterprises by:

— public auction;

— tender offering;

— as determined by the Council of Ministers.

What other alternatives exist (vs. outright purchase) for gaining control over a state enterprise? [A.34]

— Tenancy for 25 years with an option to purchase;

— Management contract with an option to purchase or to sell to third parties;

— Instalment purchases with retention of the title;

— Sale with restrictive clauses in the contract requiring certain conditions to be fulfilled or else the property must be returned (e.g. job security, investments, specific economic results, etc.).

Further restrictions on selling state assets: [Cl.10]

— If the state/municipality owns at least 30 per cent in a commercial partnership, this share may not be reduced except with permission of the state authority in charge of monitoring this share in the company.

— If the state owns more than 50 per cent of any kind of company, then the company may not sell or lease more than 5 per cent of its assets without permission of the state authority in charge of monitoring this share in the company.

V. Special provisions

Existing tenants or leaseholders on the property: [Cl.7]

— Tenancy or lease continues indefinitely;

— Notice to quit may not be more than six months.

Previous transactions with state property [Cl.8]

— Any arrangement made since 1 January 1990 which was a bad deal for the state is voidable.

Other regulations needing passage with this law [Cl.16]:

— How the state will exercise its rights of ownership in enterprises;

— Rules on spending fund to cover expenses of privatization;

— Rules concerning debt for equity swaps;

— Procedure and criteria for appraisal of enterprises;

— Rules concerning preferences prices for shares or part of the ownership stakes in enterprises which may be granted to some buyers;

— Terms and conditions on which preferences are granted;

— Regulations concerning what information must be provided to the appraisers;

— The terms and procedures for conducting auctions and tenders;

Key

A. = Article
Cl. = Clause
SPA = State Privatization Agency
CM = Council of Ministers (Cabinet of Prime Minister et al.)
NA = National Assembly (Parliament)

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ISBN 92-2-109492-8