

FIGHTING THE ECONOMIC CRISIS: COULD BULGARIA BE A NEOLIBERAL SUCCESS STORY?²

In April 2010 Bulgarian government announced an economic and social plan targeted on counteracting the swift economic downfall and hopefully, on helping the economic recovery. The way the plan was launched and the character of some of the measures created a lot of comments, rejection and controversy among the economic agents in the country. That inspired the main idea of that paper - to look more carefully into the plan. First section outlines roughly the global response to the financial crisis. Section 2 observes the government anti-crisis plan in some detail; the third features plan's specifics summarizing it as a fire plan, comprised of a bunch of neo-liberal measures targeted on shrinking belts and relying on the self-sufficient ability of private business to overcome the recession. Section 4 tries to answer the question – why the plan is as it is - and pays attention to the objective determinants of the plan, to the “ideologemes” which frame the economic thinking of policy makers and points out the first results and the first cracks of that plan. Finally, the paper concludes that, a radical shift away from the neoliberal economic policy seems more and more as an unavoidable decision.

JEL: B52, E32; E61; E65; E66

The Global financial crisis shook Bulgaria severely. The GDP fell from +6.19 in 2008 to -5.5% in 2009 causing a dramatic effect over the whole economic activity. The worse result went to the FDI, which were the engine for the preceding growth. They fell from above 9 billion Euros in 2008 to 1.6 billion for the 2010.

Facing the disappointing reality the government decided to create an anti-crisis plan in order to counteract the economic downfall and hopefully to help the economic recovery. The plan was announced in the beginning of April 2010 and comprised a large number of measures. The way the plan was launched and the character of some of the measures created a lot of comments, rejection and controversy among the economists. This inspired the main idea of that paper to look more carefully in the plan. The paper deals with the global response to the financial crisis, the BG government anti-crisis plan, specifics and summary of the measures. In conclusion

¹ Plamen D. Tchipev is Assoc. Prof. at Economic Research Institute, BAS.

² I am grateful to participants in EAEPE Annual conference, Nov. 2010, Bordeaux and BU-HU bilateral workshop, Oct. 2010, Sofia for all the comments received; needless to say that all the responsibility for any remaining errors and views is solely with the author.

the paper tries to shed some light on the dominant economic thinking which shaped the plan in such a way.

The Global Response to the Crisis

It is very difficult to speak about a unified global response. The different countries reacted more or less independently and created their own plans reflecting their own understanding how to fight the crisis. Nevertheless, a tiny consensus emerged based mostly on the decisions taken at the meetings of G-20 (London, Pittsburg).

Since detailed view of the measures taken in response to the crisis by the most influential economies is beyond the focus here, just a few points are mentioned. The goal of the measures is targeted on creating of a “fundamentally stronger financial system than existed prior to the crisis”, (**G-20, 2009, §13**). The member states emphasize their intention to have stricter risk-taking rules, compensations bonded on performance, stringent supervision on firms which could pose a financial stability risk. The member states pointed out the critical areas, which need to be addressed by their financial ministers and central bank governors. Among them:

- Creation and endorsement of Financial Stability Board to oversee not excessive risk-taking. “Excessive compensation in the financial sector has both reflected and encouraged excessive risk taking”, **G-20, (2009,§13)**. Reforming compensation policies and practices is an essential part of the effort to increase financial stability.
- Trading of all standardized OTC derivative contracts on exchanges or electronic trading platforms where appropriate, and clearing through central counterparties by end-2012 at the latest.
- Establishing crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress.
- A single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011.

It is not difficult to notice, that the major effort is targeted on financial system. No matter what are the precise judgments about the mechanics which led to the financial crisis, it is quite clear, that a certain set of steps has to be done in order to achieve stability and safety of the financial system and those steps comprised quite a *reforming* ones. Such, that, to ensure the corporate management activities (including trade in some derivatives) are properly accounted and monitored for not excessive risk-taking and long-term value creation.

That general drift, of the reforming effort in the developed world, might not be enough to address the whole complexity of the problems encountered in the individual countries, but in any case it might provide a view point when debating Bulgarian plan.

Bulgarian Crisis-Fighting Plan

On 31th of March 2010, after a long and sometimes quite turbulent debates, the Bulgarian “*tristranka*” (a tri-party negotiating public body³, comprising representatives of the government, syndicates⁴ and employer organizations) announced a package of 60 measures covering various economic and social areas of activity.

That “bargained” plan was empowered by a government resolution (**Government of Bulgaria, 2010**) and soon afterwards the budget revision passed in the Parliament without further debate. This, non-traditionally adopted, anti-crisis plan bears a lot of peculiarities we later discuss in more detail, but one of them need to be mentioned right here.

While the plan was highly acclaimed as consensual, that was *not a political consensus*. And many of its measures were fiercely opposed by all possible groups of the political opposition and various *lobbyist groups* (LG). That is the reason that many of the measures were delayed, revised or even reversed. Moreover, even within the “*tristranka*” debate, consensus was not exactly the word. Both the syndicates and the employers parties continued to argue each other and with the government on certain measures and this also contributed for the failure of some measures. The government itself also seems revising its perception on many issues as we shall see. Hence, the plan was more or less *kind of “letter of intentions”* for the parties, which reserved (implicitly!) some freedom to deviate from the plan.

The total effect of the plan was estimated at 1.6bn BGN (€0.82bn) and it was bond *not* to involve an increase of the VAT rate; (currently at 20%). The measures were distributed among the following categories – raising the standards of financial discipline, support for the Treasury, public expense, real sector, households, labor market and social networks. That distribution is quite a “formal” one, since it does not answer clearly who will be affected, either positively or negatively by any specific measure; to say it other way - “Who will pay for each of the measures?” Of course, there is always someone to pay, but the plan does not identify them.

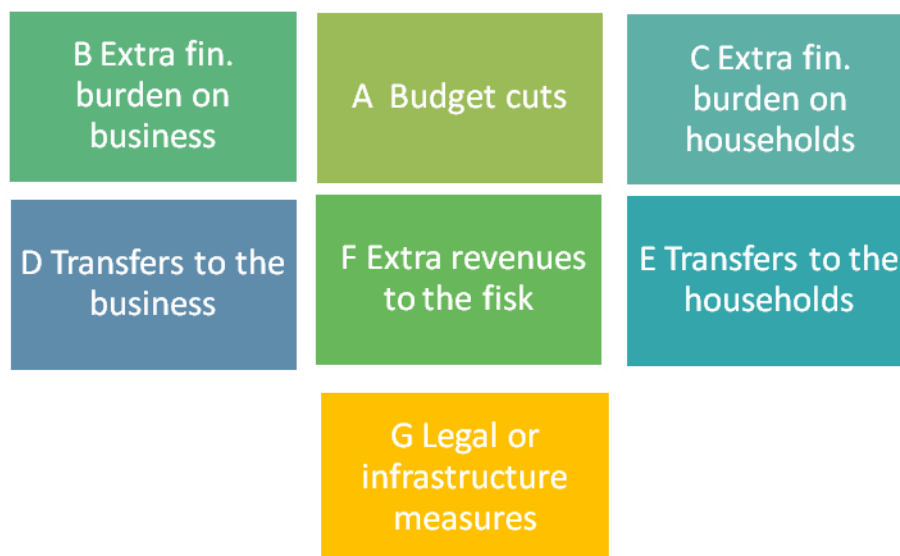
The above amount for the plan is quite a provisional one – many of the measures haven’t had financial assessment nor at the moment of plan launch, neither later. About one third of the measures are regulatory ones, which means that they require creation of various registers, or lists, or launch of lasting reforms; those measures are typically without financial assessment.

³ National Council for Tripartite Cooperation

⁴ Bulgarian trade-unions called themselves syndicates at certain moment during the transition to a market economy.

The prospects for success of the anti-crisis plan depend heavily on the social support for it, and the latter is contingent on the way its burden is arranged within the society. This way, Fig. 1 shows an arrangement of the anti-crisis measures into seven groups, according to the affected economic agents.

Figure 1



The first row shows the measures likely to divert (or to shorten) the financial flows of certain economic agents, or more generally, of the society as in the case with the budget cuts. Roughly said, that row represents the austerity measures.

The second row represent the government intention to direct (or to increase) certain financial flows to specific target groups in order to help them to sustain the hardships of the financial crisis; one may see that as incentive measures.

Budget Cuts

Cutting of the 2010 budget seemed inevitable when the tax revenues started to shrink. The government adopted a general cut by 10% of all current expenses of budget institutions estimated at BGN450m; certain exceptions appeared, as of the Ministry of Interior budget (**Government of Bulgaria, 2010, meas. no.19**).

This is an emergency measure and it was implemented quickly; in fact it was doubled, since later, the consolidated national budget was updated and the actual spending cut appeared 900 m leva (20% of the original).

Further budget cuts were done on smaller scale, as the one of political parties subsidy - about BGN7.5m, and it also went smoothly.

Another group of measures targeted on shrinking of the budget expenditures was devised for longer implementation. Among them most important is the introduction of the long-delayed e-government. Here, again, the anti-crisis plan has not shown estimates on the effect, but it was debated by the experts that total effect will ascribe to BGN2bn for a ten-years period. Unfortunately, the initial effect is expected to be reverse one, i.e. during the slump and the immediate post-crisis period, since there are costs involved to develop the project itself.

Extra Financial Burden on Businesses

A number of measures, targeted on raising extra budget revenues, inflicted more or less bigger expenses through increased taxation or through introduced new taxes or regulations for carrying out of some business activities.

Among them, more significant looked the following:

- Extra taxation on gambling (**Gov., 2010, meas. no. 8**)

Initially, the tax was expected to raise about BGN80m, if introduced from the mid-2010. Though at first glance it seems targeted on the customers (percentage from their profit), the businesses interpreted it as negative to them and opposed it severely. The government seemingly accepted, at least to some extent, this argument and firstly delayed its introduction, slashed the expected income and eventually suspended it.

- Reversed principle for taxation of insurance business (**Gov., 2010, meas. no.9**)

Though the plan was not specific financially on that point, the experts estimated about BGN120m increase in the budget revenues till the end of 2010, as a result of its implementation. The measure was announced as complying with a EU directive, but again the strong lobbyist opposition delayed its introduction, then ensured changes, which are believed to shift the final effect towards the clients and eventually postponed for the 2011.

- Increase of a certain social security payment to the employees (**Gov., 2010, meas. no.60**)

A measure targeted on curtailing the drainage of the social security system by false temporary disability. The measure was not assessed in the plan but according to expert estimations its effect is about BGN2m annually. Regardless the opposition it was successfully implemented and even prolonged till 2012.

Extra Financial Burden on Households

- Suspension of certain pensions supplements (**Gov., 2010, meas. no.59**)

Estimated on BGN142m in the plan. The measure was implemented and the amount of money was transferred to a social program, as discussed below.

- “Luxury” tax – the plan forecasts an effect of BGN35m(**Gov.,2010,meas. no.13**).

Highly acclaimed during the “tristranka bargaining” as a measure bearing relatively high effect and as a measure increasing the more even distribution of the of the crisis burden; desperately opposed by various Lobbying Groups (LG), branded as not-feasible, delayed (due to technical (!) problems), and eventually dismissed. Missing the irony, that it was him who negotiated the measure for the government in “tristranka”, the finance minister announced *“After all we are a right-wing party and right government. The right governments do not raise the taxes.”*(bTV, 2010).

- Cut of a certain social security payment to the employees about BGN15m effect. (**Gov., 2010, meas. no.14**)

A measure quickly implemented, through an administrative regulatory change

Extra Revenues to the Fisc and Municipalities

During the creation of the anti-crisis plan it became apparent, that filling up the shortage of the revenues to the budget is not possible just by austerity measures and the government need to raise some extra cash. After a strong public campaign and various rumors of inevitable increase of the VAT rate, which created quite a gloomy perspective, the tripartite council announced that VAT *must* not be raised. Accordingly, it launched alternative measures:

- The **no.1 measure** in the plan, (**Gov., 2010,**) defined as: “Raising of extra internal and external financial resource

The plan has not provide details here, thus fostering speculations, that this is just an euphemism for issuing more government debt. Generally, most of the observers believed the government will use this to untied its hands on rolling the debt, but they differed on the ways, this may be done; so the critics were more or less tempered. Soon, the government reserved the right to issue about BGN2bn for 2010 and another billion for the 2011. Eventually, it occurred that the actual issued debt for 2010 was about 1.5 billion leva and the financial minister declared that no debt will be issued for 2011.

- Second biggest source of extra finance envisaged by the plan consisted the sales of Assigned Amount Units, (CO₂), through the “green investments” program; about BGN500m. (**Gov., 2010, meas. no.2**)

Unfortunately, the right of Bulgaria to sell those units was suspended by the European commission for many months, negating almost completely the effect of the measure.

- Extra revenue from privatization – 250m; (**Gov., 2010, meas. no.3**)

Privatization is always a handy instrument, not just because of the extra revenues, but also because it fits well the general trend for shortening the role of the state. Although, it is a difficult one. There were no lists what and when to be privatized in the plan and by the end of the 2010 the results are symbolic. While, the intentions are renewed again, it becomes more and more apparent that this should not be considered as an anti-crisis measure.

- Extra revenues from land rentals and sales – 164m; (**Gov., 2010, meas. no.7**)

The measure was not quite clear; *apriori*, it was believed that these are future revenues diverted to the current budget through a rearranged contracts. Actual implementation appears to be rather unsatisfying.

- Increased payments from rentals of government and municipal property (BGN25m) and from dividends (26m).

A measure claimed to restore the norms canceled by the previous government; implemented by administrative changes.

- Mining and infrastructure concessions BGN15m (**Gov., 2010, meas. no.17**)

The measure seems useful but, there were neither lists for the intended concessions nor the deadlines, hence it is not cleared how effective it is.

- More independence for local taxation (**Gov., 2010, meas. no.34**)

Quite a controversial measure; in the beginning it was believed that it will lead to introduction of new principle for collection of the waste-tax by the municipalities - quite a questionable practice currently - and was highly acclaimed. In fact, the change was not done by the beginning of the following tax-year. Instead, an attempt (failed) to change the administrative taxable areas of the capital city was made, with an effect of an enormous raise of the municipal taxes (up to 50%) for many of the citizens.

Since, there were neither estimates of the people affected nor the effective rate of increase, the independent observers regarded that measure, simply, as a hidden tax raise, avoiding the official declarations; (see the above statement of Minister Djankov).

- Temporarily (till 2011) suspension of the decreasing of the social payments (**Gov., 2010, meas. no.52**)

This tendency, or program, was not just suspended, but reversed; from the beginning of 2011, the pension security rate rose by 1.8%.

Transfers to the business, including:

- Three measures of the plan are aimed at clearing of budget payments in arrears – those due on completed contracts, on recovering of VAT to the business and on participation of the businesses in various program funded by the Euro-funds. Those measures have also institutional dimension, since they were bonded on creation of public registers for those debts.

No official estimation was provided, but the experts calculated between 500 and 600 millions Bulgarian leva. The measures are considered complete, though the amount of transfers is about 300m leva; the program envisaged a small discount for repayment, and apparently not all of the businesses joined it.

- Increasing of the capital of Bulgarian Bank for Development (BBD) in order to provide more resource for the Small and Medium Enterprises (SME). (**Gov., 2010, meas. no.31**)

While the capital of the state-owned bank was raised (currently at 132m leva), it is not clear whatever effect it has on the SME; most of the time the bank was preoccupied to carry out the previous measure.

- Entrusting (?) of government services to private business (**Gov., 2010, meas. no.16**)

Whatever does this mean, it was announced without any lists, financial estimates, or timing etc., just like that.

- Advancing of the sales of CO₂ quotas by the “Green investment”. (**Gov., 2010, meas. no.2**)

As mentioned above this was intended as a single, strongest, “incentive” measure for the business, but it was blocked for most of the time; few companies were able to take little advantage from the program and the effect is estimated at about 9m leva.

- Government support for the companies endangered by closing on ecologically grounds.

The intention is to give more time for the firms to adjust to more stringent rules in EU. The measure was envisaged as anti-market and heavily criticized, but in fact there were some cases of such support; no financial estimates were released.

- Financial support provided by the budget and EU programs, for the firms applying a “flexible” systems of employment.

Again there were no financial indicators, but the measure was reported complete through the year.

Transfers to the Households

The plan includes a number of measures targeted to support households during the crisis. The measures are income selective, but are not exclusively targeted at the lower level income groups.

- Additional subsidy to social networks - BGN142m.

The amount equals the resources spared from the above mentioned measure, cutting some pension payments. Hence, it may be regarded as redirecting of resource forced by the worsening of the economic situation.

- Removed cap on the payments for temporarily unemployment (**Gov., 2010, meas. no.37**)

The measure (BGN45m) was highly acclaimed by all the partners in negotiation process and was implemented speedily.

- Liberalizing the regime for using of the “food vouchers” (**Gov., 2010, meas. no.38**)

The measure, announced without financial assessment, was implemented on a later stage. Although, it is not clear has it achieved the goal to connect the newly opened working places with benefits of the program.

- Extra subsidized employment; the plan provided an amount of BGN10m.
- Measures for “employment preservation” – provided BGN14m.

The measure was aimed at keeping more people on the job, even if their company is not able to engage them efficiently in the working process, by “flexible” working time, involuntary leaves, etc. It also includes compensation for “specific” laid-offs. Actual interest in the measure was smaller than expected.

- Additional subsidy for free lunches for poor

The measure provided an amount of 0.45m leva for opening of temporary canteens for the people in need.

- Increased min salary from July 1, 2010 - BGN10m.

The extremely strongly opposed measure by the lobbying groups. The opposition was gladly accepted by the financial minister who announced, instead, a freezing salary policy not just for 2010, but also for 2011.

- Efforts (?) for freezing of state-regulated prices (**Gov., 2010, meas. no.39**)

The quite a frivolous formulation of this measure suggests the results of its (non)implementation – more than twice bigger inflation than the projected one (4.5% on annual base by December). The prices escalated further in the beginning of 2011, including those of the regulated monopolies; reaching the prices in much richer European countries.

Legal or Infrastructure Measures

The last group consists of regulatory measures; some of them desperately needed. They include such long-time delayed ones, like starting reforms of pension system and of the health-care system; introducing of electronic health-care ID; dealing with the uninsured persons etc.

Another group of measures are targeted to support the business, like lowering the thresholds for A and B class investors or shortening, simplifying the insolvency procedure and temporary ease of some labor rules.

There are measures for rising the financial discipline, like introducing the obligation for the companies, which settled their accounts with the budget, to pay off their own debts to employees and contractors. In such a direction, is introduction of monitoring of unpaid remunerations.

A number of public registers is also introduced - the property one, the one on payments due by the budget.

The anti-crisis plan also initiated more intrusive regulation in the labor market - the government secured rights to “extended branch labor contracts” further to those branches, which could not get an agreement; to limit the number of “*gast arbeiters*”; to create a mechanisms for finding a “first job” for young people.

Some of the measures look like a bit awkward and it is difficult to understand what the negotiating party aimed at, like “introduction of rules to ensure loyal competition”(??); Bulgaria has a free-competition-protection law (and the appropriate committee), but apparently, some parties consider them inefficient. Also a bit strange, is the idea for “local and branch monitoring and distribution(??) of qualified labor”

As mentioned above most of the measures in that group, have neither financial estimation nor criteria for implementation, and most important, it will take a long time to be implemented. For example, the pension reform started, but without an important component written down in the plan, (its connection with the minim

wage); its effect is expected for 2013 and the reform in the health-care system seems to be put on hold after the strong resistance by the medical profession.

Specifics of the Plan

As mentioned, the plan was dubbed “unprecedented agreement”, regardless of the way it was negotiated; and it was not fully quantified.

Moreover, the plan quite remarkably, was not a comprehensive one. Crucial measures left out of the program. To mention one - the wage freeze up to 2012. Under running inflation, this measure changed the effect of the others. Measures, which initially looked more balanced, as for example the increase of contributions for pension, which are withheld from the remunerations, received quite an austere effect on the household consumption, when were combined with the frozen wages.

Further, the plan encompassed too many not immediate measures; measures targeted on general improvement of the economic functioning rather, than on countering the crisis. Not surprisingly, the plan was described in the following way: 'The rhetoric is “anti-crisis”, instead of being “reforming”’.

Spheres of application

The spheres of application are quite revealing about the character of the plan. As a plan, urging the government to start the reforms which it hesitated to start earlier, it focuses much on social spheres. To some extent this is a normal reaction since the crisis always requires attention of some old problems. Although, in our case it seems a bit exaggerated.

The initiated social reforms are certainly important, but should not be overwhelming. This obsession with the social security sphere creates the impression that the other sectors do not need attention. The plan completely turns back to any reform in financial and banking sphere. Although, as mentioned in the first section of the paper, this is a *major area* of intervention in the developed economies, since the crisis originated there.

Bulgarian plan takes very little action in financial sector – perhaps just the amended taxation of the insurance business; and that was done in response to the EC Directive 138/2009 - at least this was officially announced in the plan. Even though, the measure passed on very difficult, being opposed by any possible lobbyist groups, including political opposition. It was delayed and eventually applied in such a way, so to transfer the burden to the households.

The anti-crisis plan suggests no other problems in the financial sphere; this is definitely not the case. In Bulgaria, there is going a long-lasting debate, about the levels of interest rates, charged by the banking sector. They are considered unjustifiably high, provided the country is a member of EU, bears no extra political

risk and has a normal access to the international financial markets, through the large international banks, which hold practically about 80% of the sector.

The debate is heated further by the ever-rising share of not-serviced debt (approaching 12% currently) under decreasing, but still quite substantial, profits of the banking sector – BGN 617m for 2010. **(BNB, 2011, p.52).**

The plan leaves without attention, yet another important public finance sphere - the taxation system. After introducing of the flat rate tax at the lowest EC rate of 10%, the reform of tax system is completely out of public debate. Although, many social groups, including the trade unions, some political parties and economic experts oppose it as economically inefficient, socially unacceptable and complicating the situation under the economic crisis.

Sources of financing of the plan

At first glance, the Bulgarian anti-crisis plan seems quite neutral. The biggest source for supporting the economy in the hard times, is the increase of “unexplored” or “future” incomes; about one billion leva - sales of pollution quotas, privatization, higher and early-received contributions from state and municipal property.

The second biggest source, budget cut, also seems neutral, since it spreads equally among the country’s economic activities, and, at least at first glance, it was not that severe – 10% of the whole budget.

Then, as a third source, it comes the extra financial burden on the households - through the cut of pension supplements and of some social payments and of added taxation etc. – about 200m leva altogether. The initial outline of the program envisage almost the same burden for the business in terms of some taxes – gambling, insurance.

Although, the actual application offeres a rather different picture – first, the extra finance, supposed to come from the “tiny air”, has not come – neither came the pollution, nor the privatization, money. That fact, plus the ever falling budget revenues, forced the government to shift the weight of the program over the budget cuts and as a result they doubled them. Beyond the certain point the budget cuts become an austerity measure forcing some budgetary funded institutions to send people to involuntary leaves for some days every month and cutting their income drastically. This was the case, for example, with research institutions, some universities, etc., and caused massive protests.

Belt-tightening also came from the way some other measures were completed – the tax on insuring business was realised technically, in such a way, that it was transferred to the individuals. Actually, it has not contributed to worsening the households situation further in 2010, since the government was slow enough to introduce it, but nevertheless it shifted the balance between the measures on the

account of the households. In such a manner acted, also, the abandoning of other measures, as tax on gambling.

Targets

Understanding of what is the Bulgarian anti-crisis plan is impossible, without understanding of its goals, as they are represented by the plan targets. Doubtlessly, the main target is keeping the deficit within the certain limit – this became obvious just two months after the plan launch; it was denounced by the budget actualization. The latter simply cut as much as needed out of the expenditures, impeding and even blocking important social activities as healthcare and science.

Second target of the plan, appears to be paying off the outstanding government debt to the business. The problem is a more complex than it looks like at first glance. While, in a sense, such a debt is ever present in the Bulgarian economy (BGN432m as of 31.12.2010; **MF,2010**), it was much aggravated by the government decision to keep the deficit low in order to apply for entering the ERM II. So they simply denied some 2009 due payments, on a ground of political and economical reasons mixture. In fact, the government could neither avoid the payment, nor to apply for the ERM II; they simply transferred payment to the 2010 budget, thus highly aggravating the economic situation.

Whatever the reason, the second major target of the anti-crisis plan was clearing off the mounting debts and as, it was pointed out in the previous section it was done relatively successful, even when the pollution quotas trade failed. The government just severed the budget cuts and issued some debt.

Support for the social activities and labor market, occupies the third place. It is important to point out that the biggest amount here, is a deviation of the resource originally designed for a kind of pensions supplement. That way, the actual “extra” finance for the activities in question was rather scarce.

Since it is generally believed, that the anti-crisis programs seek to support the consumption of the households, one may expect that such a target is also set in the plan. In fact it is difficult to detect it. Apart of some little resources for the unemployed and the poorest, there were no programs for keeping up the consumption. Regardless negotiating them, the important measures as increasing the minimal salary (lowest in the EU; currently at about 121 euro) and holding up the prices of regulated monopolies were not implemented.

The plan stated that the pension reform should include a connection between the minimal pension and minimal salary, but that was not achieved.

Measures, like removing the cap on unemployment payments, and abandonment of the “luxury” tax, which might be seen as a pro-consumption ones, had a limited scope and were applied to the relatively higher income social groups.

Summarizing the characteristics of the Bulgarian anti-crisis plan we should define it the following way. This is hardly a comprehensive model for getting out of the crisis, but rather a fire plan, comprised of a bunch of *neo-liberal* measures targeted on shrinking belts and relying on the self-sufficient ability of private business to overcome the recession.

Success with the Plan?

Before trying to find out, what are the chances for success of the plan, it seems a good idea to see what is the framework of both objective realities and subjective concepts within which the plan was placed.

Objective determinants of the plan

Perhaps the most important objective of the plan is its little maneuvering space. The direct taxes are almost at the “ground zero”, with the lowest rates in EC. With the constant reaffirming of the advantages of the “flat” taxation system the government could not use this fiscal instrument without serious opposition. Moreover, the indirect taxes [VAT] are at a quite high level (20%) and the government opportunities to manipulate them are, also, very limited. Perhaps, *the most important goal* of the whole plan for the government was to ensure that it will be able to cope with the deficit without changing the VAT rate.

Perhaps, the most important, constraint of the government anti-crisis policy is the sharp decrease of the foreign direct investments ... €0.4bn for the first six months of 2010 – 4 times lower on yoy basis. The effect of the low level investment is even larger, since it is the main justification of the peculiar tax system. When introduced, the system was believed to encourage the independent investors. While doubtful, if it had any substantial effect ever, it is certain, that this taxation has not effect under the crisis conditions and the perspectives in short term are also not quite promising.

Next objective impediment for the anti-crisis plan are the not-reformed sectors; important spheres have, completely or partially, an anti-plan functioning, like the health-care [seen by many as a spending pump] or the pension system [with huge and permanent deficits].

Last but not least, Bulgarian society is far from affluent one; the least average income in EU, the low poverty line and the higher level of “families experiencing serious “financial difficulties” restrain the opportunity to encourage the economic growth through the consumption.

Framing ideologemes

The other side of the picture, explaining why the Bulgarian anti-crisis plan took such a shape is given by a number of statements, short, out-of-context assertions,

simplified and strongly motivated by the beliefs of their bearers. The history of Bulgarian transition to the market economy has been deeply penetrated by such pieces of ideology and one should be familiar with them when trying to understand many of the economic realities.

- All-stable”, “retard”, banking sector

That ideologeme emerged immediately after the beginning of the crisis. It was shortly announced in the public space, that the Bulgarian banks are not threatened at all by the crisis, since they were conservative enough to refrain from buying the complex and sophisticated instruments like CDO's, so they are safe of the infamous “subprime” mortgages. That concept, added with some ironic deliberations on “retardness”, slowness, etc. of the banking system, were taken on arms by all sorts of lobbying groups and were used extensively to turn down the discussion about the needed reforms in the banking sector. And it was successful; practically, all what the reforming attempts achieved was introducing a quasi-reforming norm, requiring banks to publicize details about their interest rates.

- Obsession for indirect taxation

Bulgaria has quite a big ratio between the indirect versus the direct taxes; perhaps one of the most peculiar in EC. It is not easy to trace down how this concept got so spread; at least it is not known to me any official debate or decision why this should be a norm, but it is a fact and year by year this ratio gets bigger. The effect of this peculiar ration is quite unpleasant, not just when the economy is shrinking, but also in the situation of “export-growing” GDP. The issue is certainly more complicated, but doubtlessly, it is quite unhappy situation for the government to claim growth of the economy, and at the same time - falling revenues in the budget.

- The “sacred cow” of flat rate taxes

That ideologeme is really obsessing. Many groups within the society, including parties, scientists, trade-unions and more, disapprove flat rate tax, but regardless their arguments, the governments deny even the discussions about the possible alternatives.

- Mini-mini-min philosophy: lowest taxes-lowest social security payments-lowest wages in EU

This is the ideologeme that hides behind the idea of attracting foreign investments. As it is clear now, lowering taxes was a long-standing Bulgarian strategy, apparently including comparing, and even competing, with the other “emerging” markets in the region.

Lowering the social security rates is something newer idea, but fascinating one. Even in the eye of the financial storm, the current government did not hesitate to reassure that policy with the 2010 budget; it was necessary budget deficit of

National Social Security Institute to hit almost 2 billion leva in order to stop and revise that policy. And it was done reluctantly, under the pressure of the trade-unions.

- LG's "all-market" phraseology

The crisis revitalized the old pro- and anti-Keynesian rhetoric, though, as one can see easily, the Bulgarian plan was everything, but Keynesian one. That rhetoric is active and harsh, and any attempt for defending a pro-consumption policy is being branded as "pro-deficit", "pro-crisis", etc.

- Coinciding (?) views between "left" and "right" political specter

Strange enough, on many issues the views from the left and from the right are close or coinciding. This is easily visible when one consider the support for the increase of the minimal wage. This is an approved by "tristranka" measure; one which played a role in convincing the unions to agree the austerity budget cuts. Nevertheless, neither the government nor any political party makes any serious effort to implement it.

- Liberal consensus

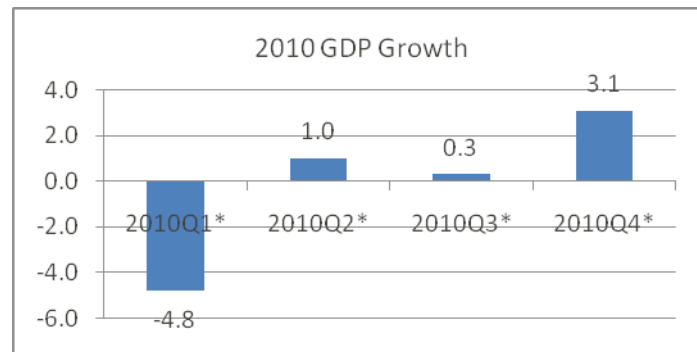
Each of the above ideologemes might find a good reasoning taken separately; each may have a "history" or path-dependent explanation, but taken all together they form a much more complex and long-standing philosophy. Given the uniform political support one may find on many crucial and important issues of that philosophy, and given its proximity to the main-stream neoliberal economic theory, it seems justified to determine that philosophy as a *liberal consensus*.

Some results of that policy

As long as the plan was not placed within a timeline, it is difficult to determine when one should try to assess its results. Nevertheless, appearance of some of the preliminary data for 2010, offers a good chance to browse into some of the plan results. Preliminary data for 2010 show a very little GDP growth for 2010 (0.2%); broken by quarters it may suggest a shift in the trend, but still rather indecisive.

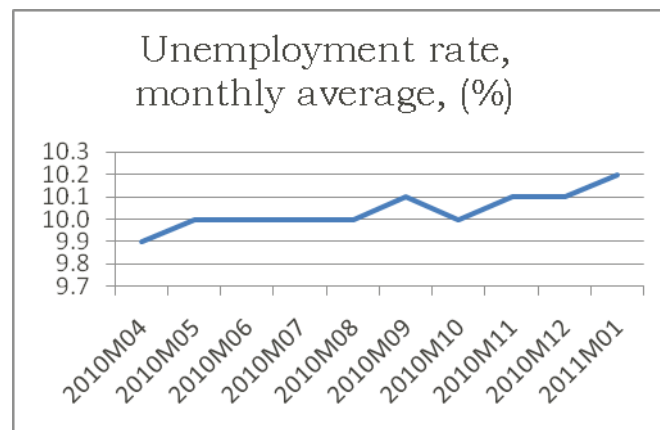
The dynamic of the unemployment (Fig 3) is also quite indecisive. Apparently, the plan played a restraining role in the first half of 2010 and the unemployment growth slowed down. But this effect seems to exhausted gradually and the last months show again an increase in the number of people registered with the labor offices in the country.

Figure 2



Source NSI (Bulgarian statistical office)

Figure 3



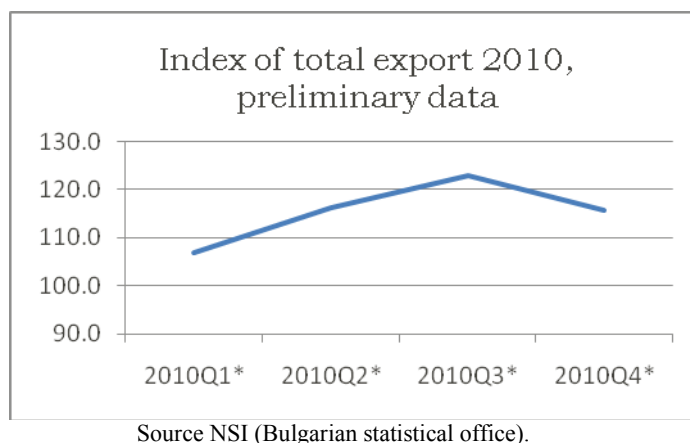
Source: Eurostat

That is a not-surprising effect, if one takes into account the recently published report of the world bank. It shows quite a controversial results for some countries, (Bulgaria included) in terms of household mechanisms coping with the crisis and the social policy in these countries. While, for example, the above mentioned effect provide for Bulgaria a moderate job loss, as a percentage of workers, the people reporting reduced earnings for the same or longer working time as well as those with reduced working time are much more. Thus, the actual group of people affected by all channels of the crisis labor market, is much bigger. And, as the report shows, the combined effect is worse compared to other east European countries, like Romania and Montenegro (**World Bank, 2011, p. 22**).

This result proves, that the labor market measures in Bulgarian plan are rather smoothing and postponing, than efficiently anti-crisis. This is further proven in the above report showing grim practices of crisis affected people reducing their use of prescribed medicines and reducing food expenditures (**World Bank, 2011, p. xxiii**).

It is interesting to mention another macroeconomic result of 2010; this is the appearance of economic growth, called by the Bulgarian finance minister an “exporting” growth. This dubbing came to explain why and how the Bulgarian export rose by more than 16% in 2010 (see Fig 4), and even more in the beginning of 2011, while the budget revenues continue to shrink. Of course, the better answer seems, the decreasing internal consumption, rapidly eroded by the running inflation.

Figure 4



Source NSI (Bulgarian statistical office).

The contribution of shrinking foreign direct investments for the unclear and irresolute picture of Bulgarian crisis-way-out is not last in the row; they would possibly reversed the negative growth trend in the last quarter of 2010, but are still very low - 58% of 2009 level.

The first cracks of Bulgarian anti-crisis policy

The Bulgarian anti-crisis plan reflects more or less an economic policy, and reveals the dominant views for economic development of the country. Regardless, what its creators recognize, it creates economic facts and provokes certain behavior in all the economic agents. And one should be quite an optimist not to expect such an austerity plan based on invariantly restrictive measures to remain without opposition. And namely it is the resistance of the measures which created first cracks of the plan.

The strong resistance among the medical profession and the patients practically led to a reverse in the health-care reform; to changes of responsible ministers, to a rejection of hospital closures and of the most severe budget cuts, and practically to a freeze of the radical reform.

The pension reform also suffered a number of changes in the policy. The hottest problem – abandoning of the early pensions was postponed, as was the increased

pension age. Instead, there were introduced rules increasing the number of years one should work before obtaining the rights to retire.

Maybe, the most interesting development is the openly stated differing position of the syndical economists. Many years, almost every important aspect of the social and economic policy went to the strange mechanism of tri-party negotiating. As this paper shows this “bargains” very often just mask, postpone or deform the problems, by issuing empty promises or simulating negotiations. The case for the minimal-wage-increase in the anti-crisis plan is just a striking evidence for such a policy. Therefore, in my opinion the open clashes between the government and syndicate ideologemes, is not just unavoidable but necessary and welcome.

Concluding Remarks

When launched, the Bulgarian anti-crisis plan looked unclear. It included measures, which could play a positive role for overcoming the slump. The restraining policy with severe budget cuts and frozen incomes, based on well-known neoliberal economic arsenal, offered as a deal accepted by all the economic agents, looked a strong one.

The more the plan was unfolding, the clearer became, that many of the measures were never intended to be implemented; some were distorted in peculiar way. Thus, the changes further aggravated the gruesome picture of austerity, performed on the people with poorest economy in EU.

The plan also shows that at the beginning the ruling party had quite some different perspective for the economy and that was reflected in the anti-crisis program. Apparently it started changing, almost immediately after its announcement. The character of this change is still unclear and seems forced by the circumstances. And definitely, it still does not show a rejection of the neoliberal policy.

The latest developments in the end of 2010 and beginning of 2011 clearly show that this policy is not able to ensure a serious reversal of the economic indicators. It might be OK as a temporary cushion, but the shrinking internal consumption simply could not provide incentive for a growth. Hence, the radical shift away from the neoliberal economic policy, seems more and more as an unavoidable decision.

Reference

- G-20, 2009. Leaders' Statement: The Pittsburgh Summit, September 24 – 25, Available at: <http://www.pittsburghsummit.gov/mediacenter/129639.htm> [Accessed March 2, 2011].
- Government of Bulgaria, 2010. Resolution no. 180, April 01, Sofia, Bulgaria; Available at: http://pris.government.bg/prin/document_view.aspx?DocumentID=82VvN6AcWWXr6ETK%2biIQEg== [Accessed March 15, 2011].

- bTV, 2010. ГЕРБ се отказва от данък "лукс" [GERB_se_otkaza_ot_danak_luks]. Available at: http://www.btv.bg/story/715673865-GERB_se_otkaza_ot_danak_luks.html [Accessed March 11, 2011].
- Bulgarian National Bank (BNB), 2011. Balance Sheets and Income Statements of the Banking System, 2011(2), p.52.
- Council of Ministers. "Transcript of the meeting on March 9, 2011." *Capital//Blogove/From Dondukov 1*, n.d. http://www.capital.bg/blogove/ot_dondukov_1/2011/03/11/1057456_stenograma_ot_zasedanieto_na_ministerskii_suvet_-_9/.
- Ministry of Finance of the Republic of Bulgaria (MF), 2010. Payment Arrears as of 31.12.2010]. Available at: <http://www.minfin.bg/en/statistics/10> [Accessed March 16, 2011].
- World Bank, 2011. *The Jobs Crisis. Household and Government Responses to the Great Recession in Eastern Europe and Central Asia*, World Bank. Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:22840795~pagePK:146736~piPK:146830~theSitePK:258599,0.html> [Accessed March 25, 2011].