ИНСТИТУТ ЗА ИКОНОМИЧЕСКИ ИЗСЛЕДВАНИЯ НА БЪЛГАРСКАТА АКАДЕМИЯ НА НАУКИТЕ
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POLITICAL ECONOMY DIMENSIONS OF THE CRISIS: THE CASE OF BULGARIA

The author's opinion is that it is the endogenous rather than the exogenous factors that happened to be decisive for overcoming the present and newly arising economic difficulties and obstacles. Various manifestations of the crisis are examined and it is proved that the poor quality of the domestic institutions and their operation underlie the economy in stagnation. The macroeconomic elite conceives its participation in the power as a unique opportunity to get rich and considers its functions as a possibility for a "free riding", i.e. that economic processes develop almost automatically by their own laws and that an individual misuse will not affect the natural course of developments. Especially dramatic is the situation in the legal system which allows washing ownership rights away and is influential in bringing about distorted non-market norms of behavior. Even commonsense regulatory principles are turned into a caricature. The behavior of economic players at company level gives grounds to claim that the managers' preparation does not come up to the level required. Ultimately, it is the education system that could raise all the population and the economic players to the point where a real control and improvement of the present system of management of society will become possible.
JEL: A14; B52; H12; Z13

Introduction

The world is still shaking as a result of the financial and economic crisis of 2007-2008. The causes for the crisis have already been studied and analyzed in detail enough. The crisis started from the highly developed countries and quickly swept over the whole world. There was, however, a substantial difference in the extent of the contagion. Some countries (of the second and third echelon mainly) have managed to maintain decent rates of economic growth, others – not. As Krugmann (1994, p. 3) put it "*sometimes the magic works, sometime it doesn't*". A great part of the countries in the world have proved guilty without any guilt. However, is this really so? Should economic damage be attributed to the greedy bankers and the wrong politicians of the developed world only?

This article analyzes how one peripheral to the EU country – Bulgaria and actually, its poorest member, has switched its economic model. The author has had at his disposal the

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most detailed and valuable information and observations about Bulgaria only, but there are other data enough - both direct and indirect - that the particularities discussed are typical for a number of peripheral countries of the EU and Europe as well (South ..., 2010). The main thesis in this article is that the country should look into itself with greater attention and responsibility and search and determine the reasons for the failures it experienced above all in the specific features of the management of its home social and economic developments. A special emphasis is put on the quality of the institutions' operation which predetermines the progress of the economic development. Because, as Solow said (1970, p. xvi) "*we have no choice but to take seriously our own direct observations of the way economic institutions work*". The resources in this context are quite a few and not little in importance.

Economic Boom: 2000-2008

The Bulgarian economy switched from a centrally planned (command) to a market economy at the end of the 80s of the 20th century. Over the following more than a quarter of a century Bulgarian economy and all the Bulgarian society went through a contradictory road of a painful change of the system. The first 7-8 years of the transition to market economic relationships were marked by the lack of experience and unwillingness of the former ruling circles to give up their power resources as well as by the striving to get rich very quickly in an unsettled and unsteady institutional environment. During 1990-1993, the country's GDP dropped by 24% on the pre-crisis year of 1989. The following three years recorded a modest positive economic growth and then another crisis came. In 1999, GDP went on lagging behind its pre-crisis level of about 22%. There followed a comparatively long period of substantial positive growth – in 2000-2008 GDP rose by over 6% (Figure 1) on an average annual basis. It took 15 years to attain the statistically assessed pre-crisis level of GDP (2004), but by 2008 GDP had already exceeded its level of 1989 by nearly a third.

Figure 1
GDP and Its Elements 1999-2008

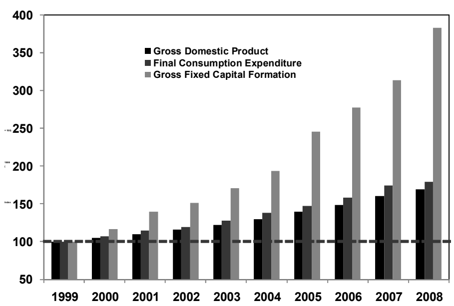
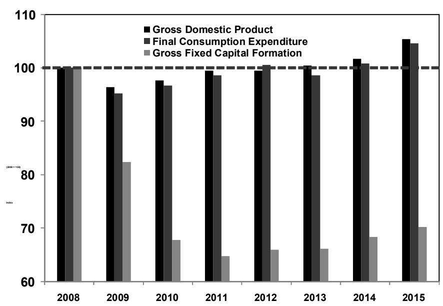


Figure 2
GDP and Its Elements 2008-2015



In 2002-2004, Bulgaria completed the privatization of its banking system and in 2007 it joined the EU (together with Rumania). The new professional banking management and the country's membership in the EU opened the door to foreign investment which contributed substantially to investment activities' expansion and the growth in GDP. The active investments found a material expression in the higher contribution of intensive factors too. Todorov (2015) evaluated the average annual Total Factor Productivity (TFP) for 2000-2008 to 3.1% and the latter accounted for more than a half of the growth in GDP achieved. There are grounds for dissatisfaction with the proportion observed, looking at it in terms of comparison. Solow (1970, p. xx) estimated that seven-eighths of the increase of the gross output per hour work in the U.S. economy between 1909 and 1949 could be attributed to "*technical change in the broadest sense*". The direct juxtaposition of the proportions assessed leads to the conclusion that a substantial part of investments in Bulgaria, for the years 1999-2008, were not connected with improving the technological conditions of production but with expanding the scale instead.

Economic growth in 2000-2008 took place in the conditions of accelerated and anticipating investment activities where each percent of real growth in GDP was accompanied by 2.3% real growth in Gross Fixed Capital Formation (GFCF). Economic rationale postulates that GFCF represents the engine for economic growth. Therefore, a really meaningful issue for this period is to discuss the efficiency of investments' application and whether it were not possible for the rates of growth of investments to lead to higher GDP rates. The answer correlates with the structural economic characteristics and comes to unused (or inadequately used) possibilities for government regulation.

This period can be characterized by a faster rate of development in GDP than the other major elements of GDP. Final Consumption Expenditures grew faster than GDP, i.e. GFCF pulled forward both production and direct consumption. Foreign trade was also a subject of active overtaking development – the real export of goods in 2008 was 166% higher than in 1999 while the import of goods rose even faster (by 186%). The Bulgarian economy opened up for active trade and economic cooperation with the outside world (most of all and primarily with the EU) and for integration into the European economic structures.

As for the standard of living – there cannot be found a single synonymous assessment and each person is entitled to his/her own assessment according to their own value scale.[2] Pigou (1932) differentiates economic welfare (measured mainly by the money at the disposition of this particular individual) and total welfare (the general feeling of satisfaction with the way of life) and stated that "... *change in economic welfare will seldom synchronize with an equal change in welfare as a whole*" (Pigou, 1932, Part I, Chapter I, § 6).

During this sub-period, Bulgaria experienced both the positive and negative effects of globalization. The deep-seated understanding (quite often unconscious) that trade is good, but imports are bad (Stiglitz, 2002, p. 178) was abandoned, which enabled local producers to come up on the global markets but along with that this development took away part of

[2] „*You could be well off, without being well. You could be well, without being able to lead the life you wanted. You could have got the life you wanted, without being happy. You could be happy, without having much freedom. You could have good deal of freedom, without achieving much. We can go on*" (Sen, 1987, p. 1).

the local market; the financial account of the balance of payments was liberalized, which happened together with the massive growth in FDI in the country but also allowed uncontrolled leakage of domestic capital abroad; the regime for free travel of natural persons abroad was liberalized, which encouraged the adoption of progressive practices but also enabled the emigration of at least a tenth of the local population; market economy created conditions for the deployment of private initiative but it also raised significantly the social stratification of society and stirred up additional social tension.

The consequences from globalization are widely discussed in specialist economic literature. There are fully contradictory opinions about it, the effects are considered heterogeneous and mixed, the recommendations – also, but an acceptable practical alternative has not managed to prevail.

Changing the Model of Economic Growth: 2008-2014

The comparison of Figure 1 and Figure 2 reveals the difference in the models of economic development during the first and the second sub-periods. Bulgarian economy began feeling the negative manifestations of the modern financial and economic crisis in material terms at the end of 2008. In 2009, GDP fell by 4.2% and it is only six years later (2014) that Bulgaria's GDP reached its level of 2008 again (Figure 2). A number of unfavorable effects were witnessed in parallel (Totev and Sariisky, 2010) but overcoming them is delayed and remains uncertain.

The recovery of the economy in the aftermath of the financial and economic crisis of 2008 was uneven and asymmetrical. Final consumption in 2014 had not yet reached its pre-crisis level and the condition of investment activities can be described as dramatic – at the end of the second sub-period under consideration the real level of gross investments was by a third lower than its pre-crisis level. Investments accelerate the technological renovation of production. The specificity of the innovative process is that innovations come one after the other. One innovation is the prerequisite for the introduction of another (Conard, 2013). Interrupting this process will lead to a collapse of growth. Compared to the average European level the technological condition of Bulgarian economy lagged behind and needed a basic renewal which could not take place without active investment activities.

The timid and prolonged after-crisis economic recovery observed was not the outcome of the improvement, obligatory for this specific situation, and the reform of the economic environment and conditions but the outcome of a kind of „*squeezing out*" and „*draining to the last drop*" of the economic possibilities available instead. Bulgarian economy has been lagging persistently behind the average European level. Due to this, as Stiglitz (2010) put it, the economy now has to run to be able to keep at the same place at least. Economic players do not feel satisfied with the present stagnation and lack of future and achieve some economic growth irrespective of and despite the unfavorable environment. Such a case of overdoing it can, in the short run, bring about maintaining the status quo and even to a slight movement ahead but it is hopeless in the long run. A telling example for this period is the symbolic values of TFP as the fuel for growth (Todorov, 2015) – hardly 0.2% on an annual average.

Problems, Reasons, Decisions

A key issue of economic policies is elucidating the reasons for stagnant economic activities in the years after 2008. Geographically and regionally they can be grouped as: (1) external (exogenous) and (2) domestic (endogenous).

The current global financial and economic crisis emerged in the conditions of the financial regulators in developed economies. There is enough literature with explanations and analyses (Stiglitz, 2010; Kaletsky, 2010). In Bulgaria, however, all these particularities of the financial system, which underlie the crisis, do not exist. It is hard to explain the reasons for this prolonged economic recession. Explanations such as: „*There is a crisis everywhere and there is a crisis here too*" are very convenient but do not reveal the reasons nor can help overcome them.

Referring to external (exogenous) factors to account for the current unfavorable economic development is an attempt to give an easy explanation (settlement respectively) to a difficult problem with the ensuing formal exoneration from political responsibility. Hayek (1988, p. 99) describes similar cases as „*naive explanations of economic phenomena"*.The political class is quite ingenious in finding out various in nature "*easy*" explanations and solutions to difficult economic problems but these, as a rule, never give satisfactory results. According to the well-known cybernetic principle hard problems require hard solutions. There are abundant examples of similar short-sighted but easy solutions: moratorium on debt servicing, fixing prices under the circumstances of high inflation pressure, budget updating in case set budget parameters and restrictions were not met etc. Similar solutions are called by specialist literature "*sleepwell*" payoffs (Hodgson et al., 2000).

One of the universally offered explanations for the transfer of the crisis infection goes along the line of foreign trade and foreign financial contacts with the developed world (Bartlett and Monastiriotis, 2010), which is accepted by the managerial elite without any obstructions. The data about the post-crisis development of Bulgarian economy, however, do not support this hypothesis. In 2014, the exports of Bulgarian goods in real terms exceeded the pre-crisis level of 2008 by 51%, whereas exports respectively were higher by hardly 5%! The recession we went through has sharply lowered the necessity for imports of goods (of investment nature primarily) and encouraged the competitive exports (of raw materials and materials mainly, because of their lower prices). If we follow the rationale of the information cited, one should conclude that the external environment has acted favorably for the development of economic processes in the country and it is Bulgaria that holds back the economic recovery of its trade partners because of the shrinking demand for imported production. Yotzov (2013) logically came to the conclusion that the decisive factor here was its structural content rather than the volume of foreign-trade activities.

After 2008, FDI shrank dramatically in the context of the decreasing investment activities in the country. The issue, however, is whether and how far this reduction can be completely attributed to the situation of crisis in the world. It is true that there is a certain withdrawal of investors worldwide, but it is true too that not a single investor would miss the opportunity for making a lucrative and safe business.

In addition to the withdrawal of foreign investors one should add the flight of domestic capital abroad. The latter, at a total value of EUR 8.1 billion, had fled from the country in 2010-2014. This accounted for more than 18% of the country's GFCF for the period. The prevailing part of it was invested in Government securities of developed European countries and made a minimum (symbolic) yield. If this capital had been invested in Bulgaria, its yield would have been 3-5 times higher. Bulgaria keeps the lowest corporate tax (10%) in the EU and despite that investors tend to steer out of the country.

Experience teaches that a well-organized economy manages to adapt to external shocks and overcome negative consequences in relatively short periods of time . Politics is a means for transferring the economy from one situation of equilibrium to another. It is always positive to look for domestic reasons for the hardships experienced since nothing is really exogenous in the economy (Ray, 2004). The external impact is reflected one or another way through the prism of domestic management. The more so that Bulgaria feels ostensibly the economic and financial assistance provided by the EU. There are estimates that prove that if the European financial assistance were absent Bulgarian economy would have continued to live under its real economic stagnation for much longer – for many more years. Irrespective of the nature and size of the external shocks, all this is bent through the home management circles. An ancient Indian wisdom put it: „*We cannot change the direction of the wind but we can adjust the sails*". The skill for meeting and absorbing various types of shocks is the real criterion for the financial and economic maturity of a society.

In methodological terms, the decisions might be considered as parametric and institutional.

An almost universal approach to settling the problems in the economy is the supply and demand of parametric solutions, which are easier and less painful. These are solutions linked to a change in some economic figure parameters with the idea that a similar change will make the local economy more attractive and draw investors. Such a typical example is the almost mechanic concentration of attention on corporate tax or other tax and administrative reliefs for a given type of business. Specialist literature labeled such a type of approach naïve empiricism or methodological naivety (Vallet, 2011). It is not real for investors to be belittled only to the primitive notion of an abstract homo oeconomicus. Man is above all a social being, who acts in accordance with affective, emotional not reflexive motivations (after Simmel). In a more general meaning the methodological individualism (a paradigm in sociology) does not presume at all that the human being is an atom hanging in a social vacuum. On the contrary, he/she belongs to the social, political and cultural environment in which he/she evolves (Boudon, 2010). And most of all in accordance with Hayek (1988, p. 98), „*... in a certain sense the activity that economics sets out to explain is not about physical phenomena but about people.*"

Economic analysis cannot be capsulated in the field of economic interactions only. A similar approach cements the technocratic attitude to economic relationships. Economics gets treated as mechanics which is inacceptable in a field where purely human relationships are dominant, quite often difficult to explain and forecast.

The institutional approach suggests another explanation, solution respectively.

The economic system is part and element of the more general system of management of society. At some moment the analysis should be raised higher, over the economic system, which depends on the condition of the political, executive, juridical, educational, demographic and social systems.

It is an illusion to think that the economy is a kind of independent, isolated field of human relationships, which exists outside and independently of the social climate in the country. Investment and economic operations of people are influenced by fields of action which lie outside economics.

North (2005:11) said that "*economics is a theory of choice – so far so good*". The issue we have to answer with a view to improving the domestic macroeconomic management is: Why investment activities are so low? How can the negative choice of investors in Bulgaria be accounted for? What can and what should the macroeconomic management elite do in the country to raise investment interest?

Legislation and Norms

Laws are amended too often and obviously rashly (Minassian, 2015). When you trace the frequency of changes, you can see that amendments and supplements to important economic laws in force have been made every hundred days once on average. There are drastic cases at that.

Such frequent, even chaotic amendments to the active legislation for the core of laws linked to the management of the economy are counter-indicative for running a stable business. The company management has to constantly adapt itself to the whims of legislators rather than adjust to market fluctuations. This, as a matter of fact, brings about swelling transaction costs, what Coase (1994) and North (2005) had in mind. The management is busy to predict pending and future legislative changes rather than assessing possible market changes instead.

One can outline the following reasons for the frequent changes in the laws:

First, the effect of the so called lobbyist interests. A people's representative (or a group of representatives) defends the interests of a certain group of producers. This activity remains unregulated and confidential. The respective people's representative is interested (in the broadest sense) in changing the legislation in a given direction and does his best to achieve it. If he/she fails once, they try to persuade some colleagues of theirs and then try again in a month or two. This directly correlates with various corruption practices.

Second, a reason for the frequent changes in the legislation might be the fact that the prevailing part of the people's representatives does not have the qualifications required to be members of the National Assembly (NA). In other words they are incompetent, do not grasp what is at issue in the respective laws, are unable to foresee the consequences from the application of one or another amendment and this imposes the need for their frequent amendments. And as it often happens in such cases – little knowledge correlates with high self-confidence.

Third, no doubt, some of the national representatives are real professionals in their fields. However, they are obviously not very seriously committed to their immediate tasks for various reasons. They might be practicing lobbyism or simply think that it is not worth wasting time, energy or fret much and finally, might give up hopelessly when the undesirable changes are launched and supported by some leading factors.

Bulgaria is obliged to stick to the EU legislation directives and this is a guarantee for the acceptable quality of the legislation as a whole. The issue is in allowing to pass slight deviations, at first sight, which finally twist the law's functioning. The final outcome is a legislation of unsatisfactory quality which impedes the growth of company activities and economic development. Economic agents have to take into consideration both the physical environment and the human one. The indefiniteness created gives rise to the question: Who makes the rules and for whom, and what are their objectives? North (2005) has already put this question and his answer is by far synonymous or reassuring.

An additional burden on the overall legislative framework was put by the selective search of responsibility for the non-abidance of current laws in action. Various bodies, authorized by the legislative powers, whose functions are to sanction natural and juridical persons for the non-compliance with laws adopted by the NA, do not always keep a close eye on the infringements made. One of the gravest problems is the manifestation of mistaken loyalty to the respective party structures and their representatives which is no doubt a blow against the independence of the institutions.

The NA itself, quite often, does not abide by the laws it has adopted. For example, The Public Finance Act (Article 27, Paragraph 4) and State Budget Procedures Act (Article 20, Paragraph 4) require the deficit of the consolidated fiscal programme to be under 2 percent of the GDP. The same deficit was 3.7% in 2014 and 2.8% in 2015.

The NA shapes a style and norms of behavior which filter through the respective channels to the lower management levels and have a negative impact on the way of thinking and economic activities of both the people and economic players. Akerlof & Kranton (2010) demonstrated that the norms of behavior underlie identity and it, on its turn, determines the specificity of the decision made by the economic agents. The energy and efforts of investors are much more committed to the search of possibilities for abuse within the present norms, unacceptable in the context of modern European development, which ultimately trace the normal in society.[3] Establishing diluted rules for behavior in managing society and the economy engenders risks and indeterminateness in the near future which raise transaction costs and restrict investment activities. And although formal rules can be changed overnight, informal constraints change much more slowly and play a crucial role in economic development.

The Achilles heel of Bulgaria's institutions continues to be the juridical system. It turn out that the „*independent*" legal system is too dependent on party representations. There is not a single case when the government loudly makes public the financial misuse of colossal sums of money by people from the high managerial core in the country and then these cases go

[3] One can use the term „*the new normal*" in keeping with Kaletsky (2010), in the meaning of „*Bulgarian normal*".

officially to court. Then, after a long period of dragging the case out, the same cases are closed without any consequences.

On a specific occasion (in early 2014) France's Ambassador to Bulgaria Mr. Xavier Lapeyre de Cabanes directly accused the Bulgarian legal system that it had tried to misappropriate the Bulgarian companies of a French investor. As a matter of fact it was a question of usurping ownership rights and more specifically – deforming ownership rights. Ownership rights are not connected with the possession of cars, real estate and any other material benefits only. They include something much more, above all and mostly the way of their acquisition. And moreover: *"... well-specified property rights make the overall environment more predictable ..."* (North, 2005, p. 15).

In 2014, the Corporate Commercial Bank (CCB, the fourth biggest bank in Bulgaria) was declared bankrupt. A social pressure enforced the official publication of the list of the bank's depositors who had enjoyed a special regime which involved granting them preferential rights.[4] They involved state-owned and private companies as well as natural persons. In accordance with the officially given information the CCB had attracted under a special regime of keeping, for the two years preceding the bankruptcy, about 12% of the overall deposits in the country (around 45% от Gross Fixed Capital Formation) for 2014. The list contained 1397 deposits and current accounts of 49 physical persons and 512 legal entities. There were names of nine physical persons with deposits of over a million euro. Their average deposits amounted to EUR 4 million (the amounts included only deposits with this bank). At the end of the last century the Bulgarian banking system was devastated by hyperinflation, i.e. this wealth was accumulated within about some ten years. Under the real Bulgarian conditions it is impossible to accumulate such a wealth by honest and regulated business for such a short period.

Obviously, when private natural persons avail themselves of and operate with colossal financial resources for the specific circumstances and moreover, acquired in a comparatively short period of time, it is a question of misuse of social status. Leaving formulated accusations without bringing them to their logical ending (in the way of a final sentence) can only mean that something in the chain does not function as it is supposed to. There might be three reasons for it:

First, that the legislation is drawn in such a way that it allows misappropriation and embezzlement of taxpayers' money (which in its essence is a crime) without defining it as illegal. The court follows the letter of the law and is not able to justify the accusation. Then the lawmakers have not done their job well, consciously or not.

Second, the investigating authorities have not collected suitable evidence which the law can accept and impose the corresponding punishment. In this case it is the investigating authorities (the police and examining magistrates) who have not done their job properly.

Third, the law court is corrupt and manages to justify the accused despite the legislation in force and the evidence adduced. Therefore the fault is in the legal system.

[4] The list is available (03/11/2015) on: http://dif.bg/wp-content/uploads/2015/10/list-art62-12-2-lci.pdf .

All the variants described above lead to the only generalizing conclusion: The institutions' operation is not of good quality. They let the redistribution of national wealth in accordance with some hidden criteria. The formally set ownership rights are one thing whereas the informal rules for redistribution quite another thing. The conscientiously made speculative change in the laws and the ignorance of abiding by the law lead to redistribution of financial assets and diluting the ownership rights, i.e. some groups are favored at the expense of others (Stiglitz, 2012). Such redistribution is a zero sum game – the one who has been favored undeservedly takes wealth away from the others. It does not lead to a general rise in the welfare in the spirit of Adam Smith, just the contrary – it suppresses economic and investment activities.

The Model of Political Behavior

Typical of the social and economic management at a macro level and which tastes like a bitter pill, is the wide practice of what is called political party appointment. Party appointments are made by the cabinets called for carrying out the policy that the governing party (coalition) won the elections with. Henceforward, however, efficiency requires the posts in the lower level of management to be taken by outstanding specialists. The practice in reality is quite different. Parties act as company formations whose goal is to reach power in favor of their own and group enrichment. After the formal victory at the elections there starts a process of large-scale rewarding of the people who contributed (organizationally) to take up the power. Thanking somebody is by appointing this person at a highly-paid government job for which the privileged one usually does not have the required knowledge and skills. The party appointed persons are well aware of their own "*merits*", strictly follow the party factors' moods and try to use their positions for drawing the maximum benefit for themselves. Some kind of collective selfishness appears for which Hayek (1982, p. 89, 96) warned that " *...what is chiefly threatening to destroy the market order is not the selfish action of individual firms but the selfishness of organized groups*" and also that "*far from the collective interests of the various groups being nearer to the interests of society as a whole, the exact opposite is true*".

The friction in economic interactions is growing. It takes away and destroys some of the economic energy. It is consumed by the political class, abusing of its power in the interest of its own existence and to the detriment of economic progress. Using rhetoric, varied in nature, is a resource for manipulating voters and is subordinated to the party-formulated goal – provision of receipts for the people involved in the party-company circle. It is a fact that once the power is established a process of almost general replacement of the management staff at the top positions of the management hierarchy begins – this is the reward for those who have contributed to the party-company success. There are no restraints; even amendments to laws are made in order to replace people on mandate positions. In these cases the newly appointed people are from the environment of the respective chairman of the governing party. This illustrates the understanding that the appropriate people with the necessary knowledge, skills and experience are only available in the governing party (coalition). Once the power goes into other hands, the procedure is repeated, i.e. the best cadres are now in the new governing guild. Such a practice sends distorted signals to the growing up generation for whom business prosperity seems invariably linked to compulsorily adopting the right party loyalty.

It is naïve to think that people and economic agents fail to grasp the essence of the redistribution in action. It determines specific norms of behavior. A major doctrine of market economy is that each factor is rewarded in accordance with its contribution to the growth in the national product. The economic agents' efforts are directed and channeled to the improvement of the possibilities for misuse rather than to the production of material wealth and services (economic progress) instead. Investment operations shrink, unregulated economic relationships expand, undermining the basis of market economy. Solow (1992, p. 272) pointed out that "*pretty clearly, economic behavior depends on the nature of social institution (and on culturally determined attitudes and beliefs or, better still, on these attitudes and beliefs as filtered through social institutions)*".

Thus for instance, the money in circulation for 2010-2014 grew on an annual average by 9.6%, given an annual average growth in GDP of less than one percent and an annual average inflation rate of 1.8%. The increased real money in circulation (liquid bomb) had serviced primarily the unregulated economic activities with almost unpredictable consequences.

Experience has shown and scientific research summarized (Rabin, 2004) that people are concerned about justice as well as to be able to enjoy equal rights in the process of resource distribution, even when it is not directly connected with growth in the general welfare. The seeming absence of direct impact of a given biased management act on economic outcomes leaves the false feeling with politicians that it will not affect negatively the social and economic behavior of people. As a matter of fact, however, there is an effect of accumulation of the negatively assessed policies which finally deform the rational thinking of economic agents. These consequences do not only affect but lead to shrinking investment and economic operations.

Regulators and Regulations

No doubt, economic regulators and financial and economic regulation take an important place in the system for rational management of the social and economic processes. Policies and regulations help private incentives meet with the social benefits. The analyses of the present crisis in a global plan have clearly shown that effective regulations are needed and they make markets much more transparent (Wheelan, 2010). Bernanke (2014, p. 65), however, drew attention to the fact that "*the public sector had its own vulnerabilities, including gaps in the regulatory structure*". It should be clear that the good regulators might produce good results only if the regulations are strictly applied. "*It is not enough to have good regulations; they have to be enforced. The failures in this crisis are not just a failure of regulation but of regulatory institutions ... Regulation is part of political process*" (The Stiglitz Report, 2010, p. 105). Regulation, in its essence, represents a process of coordination and Krugman (1994) summed up that recessions was poor regulation.

The modern Bulgarian experience has demonstrated the pitfalls connected with regulations and regulating. The regulations are well-thought and correspond to the modern progressing thinking but their application has been by far satisfactory.

The regulatory functions of the Central Bank (BNB) are well-known enough and indisputable. The BNB, however, let the bankruptcy of the fourth largest commercial bank in the country happen in 2014, while having in mind that the negative processes there had been running consistently for four to five years already. Moreover, the BNB allowed the credit balloon to swell and its burst was one of the main reasons for the financial and economic crisis the country experienced (Minassian, 2013). The BNB took lightly the reckless risks the commercial banks took in a period of economic surge and allowed a huge volume of bad debts to accumulate. The way Rodrig (2015, p. 55) summarized it: "*A key pattern in the run up to the crisis was excessive risk taking by managers of financial institutions*".

Global experience has constructed forms efficient enough for the rational financing of scientific research. The targeted project financing has proved its rationality. In the fulfillment of the established progressive practices in Bulgaria a fund "*Scientific Research*" was founded too, enjoying some good financial funding. The poor management of the fund, as a result above all of the appointment of political management by using vague criteria, brought finally about some large-scale misappropriation. The good regulatory plan was wrecked.

The idea to encourage electricity production out of sustainable sources is no doubt progressive and promising. Fulfilling the recommendations of the EU Bulgaria introduced some legal reliefs and incentives to start developing this business. After some time, however, it turned out that the laws in the Bulgarian legislation stimulated a highly narrow circle of people (mainly connected with the country's political management), who undeservedly accumulated high profits. The good idea resulted in crooked and distorted outcomes.

The vicious realization of good ideas and practices creates a regulatory caricature and often the latter proves to make part of the situation of crisis, not its solution. Pigou (1932) spoke in his day about the possibilities for distorting the initially justified requirements for government regulation. The issue comes to the leadership of the regulators. If the appointments are political and made on the ground of political rather than professional criteria, then the outcomes are deplorable. In this case, one should ask the question: Who will control and regulate the regulatory authorities? And if it turns out that no one can be held accountable for the failures witnessed, if no one can be blamed for what had happened, then the problem is in the economic and political system (Stiglitz, 2012).

Microeconomic Specificity

Part of the information discussed above concerned the depositors in the CCB that went bankrupt in 2014. They had enjoyed a special regime (above all in terms of higher interest rates). This information was officially published as a result of the social tension it provoked (footnote 3). The situation of physical persons with suspiciously high deposits had already been examined. Then, the attention was directed to corporate depositors.

The distribution of depositors – legal entities, in terms of the size of the deposits held, is highly asymmetrical. There are drastic cases in this list. Thus, for example Bulgargaz EAD company (a single owner joint-stock company, registered under the requirements of the Commercial Act with seat and address of management in the Republic of Bulgaria) is the sole Public Supplier of natural gas for the territory of the Republic of Bulgaria. The company Bulgargaz EAD had kept 47 accounts with the CCB at a total value of EUR 850 million. The Bulgarian Telecommunications Company had 39 accounts at a total value of about EUR 850 million (the amounts are approximate since the accounts were held in different currencies and represent an average value for a two-year period. There are about 50 legal entities who had deposits of below EUR 100 thousand at the bottom of the list. If the first two and the last 50 companies are cut out from the list, then the average amount of the deposits of the remaining 460 legal entities for the last two years before the bankruptcy, was about EUR 7 million each.

The statistics adduced demonstrates that not a few of the legal entities had enjoyed solid financial resources that were idle. The least painful, careless and easy way of keeping them was in the banking system and most of all where high interest rates were offered. Such profitable terms were given by the sick CCB. The prices at the domestic market are stable, a deflationary trend was even observed – the average annual HICP (worked out by Euro stat) for the country for 2012-2014 was less than 0.4%, so keeping deposits at high interest rates (6-8% for instance) was a lucrative deal. But the CCB failed and the idle financial resources suddenly evaporated.

The particularity observed of keeping solid idle money resources of legal entities with the banking system was confirmed by a specialist study of the condition of the economy in the region of the town of Stara Zagora (a leading economic region in the country) in 2014 (Minassian, 2014).

The logical questions are: How do companies manage to build up such solid idle financial resources in the circumstances of a crisis? Why don't companies put the idle financial resources to the end of a production expansion or don't invest them in production but would rather keep them as deposits with a commercial bank that finally proved to be an ordinary financial pyramid?

Here again, we come to the production-economic climate in the country that does not further the deployment of the subjective economic operations. If we refer to Keynes, we shall find out the such a climate is not available and what Keynes called "*animal spirit*" is not well fed with all the ensuing unfavorable consequences from it (Akerlof and Shiller, 2009). Schumpeter (1934) formulated three groups of motives which push entrepreneurship forward : (1) the desire to set up your own empire and even dynasty; (2) the will for victory inherent in the human being; (3) the desire to experience the joy and satisfaction of creation. These motives are as much innate as could be cultivated, fed and enhanced or the opposite – suppressed. The mechanism for impact on the activation of the motives mentioned is built in the institutional structure of the social and economic management.

The accumulated idle financial resources show that nevertheless companies manage to do with the crisis situation. Then what comes to the fore is the issue about the real situation of competition on the domestic market. The real pay for the work done in the country is much below European standards, demand is limited while the idle financial resources of companies are impressive. Then, either (1) competition in the country is not at the level required, i.e. the market economy is a deformed market one and lets a parallel accumulation of financial resources in horizontal structures or (2) the tax system in effect with a fat tax of 10% is not appropriate and enables social polarization. This leads to an issue of principle, connected with the establishment of the ownership rights and the value of the factor remuneration as key determining characteristics of a modern market economy.

What contributes to the unfavorable situation observed is the adopted structure of taxation. VAT (20%) is the main source of tax receipts into the government budget. Its value makes up for the low individual income taxation (a flat tax of 10%). The managerial elite intended to accumulate financial resources this way in the business environment which later would be reinvested in the economy. Reality, however, turned out much more different from these expectations. There has been an accumulation of resources in certain business circles but investment activities remained low. Moreover, as the data from the balance of payments has revealed, quite a number of local capital has left the country.

Another essential specifics of company management is outlined here. Why does the company's financial management get carried away with such seemingly lucrative keeping of its idle financial resources in the way of deposits in a financial pyramid in substance without the obligatory assessment of the possible prospects?

The answer to this question comes necessarily to the preparation of the managers and the quality of the specialist economic education. Schumpeter (1934) taught that looking for the causal relationship one should reach to phenomena of non-economic nature. The economic university education in the country does not come up to the modern requirements, does not prepare good managers and this discrepancy reflects in the quality of the companies' functioning. The nature and characteristics of education is an institutional problem again and it necessitates and presumes its settlement to be at a parliamentary level. The problems linked with the legitimacy of the educational establishments, financing education and science, the demands of the study process, the regulation of the educational practices are in their essence institutional ones and should be settled at a macro management level.

The effect of the good quality (and size) of education manifests itself and increases when this education is a mass one, not elitist. There are analogical cases in practical life, for instance with the telephone – its usefulness rises when its use is large-scale. The same with cars – if the number of cars goes up but infrastructure lags behind, the effect is rather negative than positive. And as Becker (1993, p. 324) stated the "*rates of return on investment of human capital rise rather that decline as the stock of human capital increases*".

The microeconomic specificity correlates with the quality of the regulations and the banking supervision of the central bank. The insufficiently precise banking supervision enabled CCB's existence as a financial pyramid and thus it managed to seduce and attract naïve depositors. These idle financial resources were distributed subjectively amidst poorly solvent borrowers related to the bank's management which logically finally resulted in the bank's insolvency. The bill was paid by the government with the taxpayers' money. All this contributed to the inefficient distribution of resources and dilution of the ownership rights and ultimately, to undermining of the market economy's foundations. We should be fully aware, following Coase (1988, p. 155), that the ownership right acts as a kind of production factor.

Going further on in these problems one comes to the deleveraging of companies as well as the inability of the company management to focus on the long-term prospects.

There are resources and they can be found but what is decisive is the home social and economic environment.

Conclusion

What happens in the NA, in the executive and judicial authorities matters for the efficient functioning of the economy. Not well-thought policies of the institutions at the top managerial level contribute to the paralysis of investment and economic activities. The outcome is fear and reluctance by households and companies to take on new liabilities, which hinders economic progress.

The investment and consumer restraint of economic players is not simply a reaction to the existing problems. It is much more the outcome of an assessment of the conjuncture in the future. The base period presumes a recovery of the economic development, the more so that there is a long way to go to reach the average European level. Despite that investments are slack. Obviously, there is a need for adopting a much more different style of social and economic management rather than the change in one or another parameter of economic management. It is obligatory to realize the decisive function of macroeconomic institutions.

The more advanced and developed an economy is, the more so advanced and efficient its state institutions should be (Wheelan, 2010). The changes in the economy and the economic environment, the emergence of new financial instruments, the modification in the social and economic environment necessitate new regulatory mechanisms and a higher quality of government regulation. „*Without adequate regulation, private incentives to take risk are not those that are socially optimal*" (The Stiglitz Report, 2010, p. 61-62).

The financial and economic crisis that Bulgaria has lived through has been above all institutional and the solutions are to be looked for in the field of improved functioning of institutions. Rodrig (2015) recommends to identify the model underlying a given type of behavior and follows the principle that "*behind all causal assertions lies a model of some sort*". The predominant part of the politicians perceive their presence in the government as „*free riding*", i.e. economic processes run by themselves, almost automatically and what matters is to use the time and the position occupied for your own benefit. North (2005) emphasized a number of times on the fact that nothing can automatically make economic progress sure, developments have to be monitored and politics adjust to changes in the informal conditions and restrictions observed. Specialist literature proved that institutions have an impact not only on the norms of behavior of the population and the economic players but on the parameters of the production function as well, on the production process respectively (Jensen & Meckling, 1979). In his Nobel lecture Solow (1970, p. xiv) indicated that there exist well behaved equilibrium paths which are surrounded by badly-behaved equilibrium paths and that "*an economy that once strays from equilibrium growth would not automatically find its way back to the any equilibrium growth path*".

The model „*free rider*" in politics leads to a situation when the creative evolution of society becomes impossible. Bernanke established that „*individually rational behavior can be collectively irrational*" (Wolf, 2015). Bulgarian politicians hope and believe that the individual irrational macroeconomic management might be in harmony with the collective rational behavior of society as a whole.

As Stiglitz (2012) found out, failures in the economic and political systems are related and they enhance each other. Since what happens (or does not happen) in the operations of institutions and in politics has its reflection on the people's and economic agents' attitude and behavior, it provokes consequences (externalities). They are discouragement, the feeling of being doomed and useless, withdrawal from social life and retiring into oneself, the feeling of having no future. The value system of people and economic players changes. It is deformed.

The quality of the education of the students in Bulgarian universities is of special importance. The poor preparation of the graduates is later materialized in weaknesses and failures in managing the finances and the production activities at a company level. Loasby (1999, p. 139) came to the conclusion that "*it is the growth of the knowledge about how to get things done that has been the central phenomenon of economic evolution*".

Education has a much larger importance in modern society. Democracy needs and presumes that a critical level of well-prepared people in society is available. The right to choice of the managing subjects means that the person choosing them has to be aware of the consequences of his/her choice, i.e. to be well familiar in detail with the mechanisms of management of the economy and society and understand how macroeconomic management should be constructed in order to reach certain ultimate and desirable goals. The predetermined approach to the social and economic choice closes in capsules the management structures and increases the temptations for abuse on behalf of the managerial elite.

The social and economic problems of a country on the periphery of the EU (such as Bulgaria) go beyond its borders. The growing differentiation between rich and poor, capable and incapable, knowledgeable and ignorant people within the framework of the European society leads to a lasting division and delimitation of societies of unclear and vague prospects. The internal European migration of clearly defined human flows from the periphery to the centre is a kind of a time-bomb. Probably the only and really efficient recipe is raising the general educational level of the whole population as a basis for a responsible and progressive social and economic choice.

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