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## **DEVELOPMENT OF THE BULGARIAN ENTREPRENEURSHIP**

The paper studies the genesis and basic factors influencing the development of the entrepreneurship in Bulgaria. It presents an outline of the history of the Bulgarian business and entrepreneurship and examines the characteristic features of the different periods, as well as the factors underlying these features. Some generalized evaluations are made concerning the influence of the economic freedoms, the degree of state intervention, the influence of the European culture and the “capital-labour” relations. The thesis developed in the paper is that the future of the Bulgarian entrepreneurship depends on the difficult process of adoption and general acceptance by all participants in the market of new social values concerning the economy of time, thriftiness, contract obligations, job discipline, tax payment, etc.

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The invitation of Bulgaria to join NATO and the announcement of the “Road Map” for the country’s accession to the European Union have opened new challenges to the Bulgarian society. Up to now, it has never had the chance to become part of the common European area. The new opportunities have made apparent not only the gap between the qualities of the products consumed or between the standards of living, but above all they have stressed the differences in the organization of the industrial production within our own society. The new conditions have shown the differences in the rules that regulate our human interactions and lives, even in the way we take care of the environment. These differences are revealed in our everyday attitude towards property, discipline, mutual aid, responsibility for others, and the fulfillment of our duties. To cut a long story short, the discrepancies between the Europeans and us, the Bulgarians, lie within our economic culture, and the value system – rules, norms, and restrictions – that we share.

The accession to the European Union requires finding a solution to a large number of purely economic problems. It is connected with a drastic change in the economic, and furthermore, the entrepreneurial culture of all Bulgarians. An examination of these problems, the genesis and basic factors shaping the changes is a very interesting and timely research project. This paper addresses some issues related to the history of the Bulgarian business and entrepreneurship and examines the characteristic features of the different periods as well as the factors underlying these features.

### **Bulgarian Economic Development and Entrepreneurship before the Liberation**

The beginning of the Bulgarian economic renaissance was initiated under the exceptionally difficult conditions of the Turkish domination. The lack of political, economic and personal freedom for the Bulgarians within the Turkish

(Ottoman) Empire manifested itself in the denial of their right to own land, to participate in the administration and government of the country in any form, or to give any expression to their religious faith and ethnic identity. These were only a few of the social and economic conditions under which the Bulgarian industrial production sprang up. Despite the difficult circumstances, the work of many generations of diligent Bulgarian entrepreneurs developed the necessary financial prerequisites not only for their own rise and survival, but also for the start of the Bulgarian Enlightenment and national revival.

The principal driving forces of the Bulgarian economic development and entrepreneurship during this period can be identified as follows:

*The first driving force* was the creation of the first written history of the Bulgarian nation by the monk Paisii from 1762. It played the role of a national programme of the Bulgarian Renaissance and had an immense spiritual and emotional impact on the further development of the nation.

*The second driving force* was the denial of the right of the Bulgarian to own land and the influence of some additional negative factors related to the lease of land, which were typical of the socio-economic life and organization of the Ottoman Empire.<sup>1</sup> In the beginning of the 17<sup>th</sup> century, however, these factors became a fundamental destructive element in the economy of the empire<sup>2</sup>. The regular taxes were supplemented by the so-called arbitrary taxes, which took the form of different fees, tolls, duties in favour of the Beys and the Spahis<sup>3</sup>. The combined effect of these factors was the depopulation of the Bulgarian villages, and the migration of the people to the suburban and forest areas.

*The third driving force* of the Bulgarian economic development results from the structural and organizational changes in the Ottoman Empire during the 19<sup>th</sup> century. The most important elements of the reform are:

a) the elimination of the elite corps of the Janissaries in 1826 by Sultan Mahmud II in Constantinople. Later, its regional subdivisions were also removed, and German military instructors were hired, which gave a start to the reforms in the Ottoman Empire;

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<sup>1</sup> See *Тодоров, П.* Върху земеделието на България преди Освобождението. - СБИД, 1929, N 7-8, p. 485-486; *Юрданов, Ю.* Развитие на нашето национално стопанство и стопанска мисъл в миналото. - СБИД, 1935, N 3, p. 131-148; *Тодоров, П.* Нашето земеделие преди Освобождението. - СБИД, 1923, N 1-2, p. 95-114, etc.

<sup>2</sup> According to the British ambassador to Turkey, Thomas Roe, the ruin of the villages at the beginning of 17<sup>th</sup> century took such proportions that in one region only, which in 1606 had had 553 villages, in 1621 had only 75 villages left. Some of the factors that influenced this process, studied by P. Todorov, were: first, the system of land ownership in the empire based on the religious dogma that the land belonged to Allah and his representative on earth, the sultan; second, the tax system and tax administration, based on the Islamic law, which envisaged a double tax on the same object – a tax on the land itself and a tax on the income from land. (See *Тодоров, П.* Върху земеделието на България преди Освобождението..., p. 489).

<sup>3</sup> See *Тодоров, П.* Нашето земеделие преди Освобождението..., p. 69-94.

b) the transformation of the mercenary Ottoman army into a regular army based on a territorial principle;<sup>4</sup>

c) the establishment of supervision on the collection of taxes from the Vakaf estates, used as means to exercise economic and financial control over the clergy;

d) the elimination of the system for redemption of taxes and the setting up of a centralized taxation system.

*The fourth driving force* of the development of the Bulgarian economy and the renaissance of the Bulgarian culture was the conversion of the main Ottoman military fortresses on Bulgarian territory into urban centers. The containment of the Islamic invasion into Europe and the decrease of the military power of the Ottoman Empire served as premises for the internal development and strengthening of the urban economy in the Bulgarian lands. Russe, Varna, Plovdiv, Sofia, Lovetch, Karlovo, and some other towns showed a rapid increase not only in population, but also in the number of crafts and craftsmen. For example, 47 different crafts could be found in Sofia in the middle of the 18<sup>th</sup> century.<sup>5</sup>

The military and administrative reform pursued by Sultan Mahmud II and especially the decree for the equal rights of all nationalities within the empire issued by Sultan Abd al-Majid in 1839, laid the legal foundations for more liberal economic and cultural activities, even though most of the proclaimed freedoms were only on paper. Thus, at the end of the 18<sup>th</sup> and the beginning of the 19<sup>th</sup> century the conditions for an intensification of the economic activities were favorable for the more entrepreneurially-oriented members of the Bulgarian society. The state deliveries for the army became some of the most important sources for the expansion of the Bulgarian craftsmanship and an important factor for the development of the economy.<sup>6</sup>

The existing premises for the organization of the industrial production (such as the specialization and division of labor, the existence of trade relations and resources) showed results in a very short period of time – some 15-20 years.<sup>7</sup>

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<sup>4</sup> A Decree on the reorganization of the territorial army from 1834 envisaged one corps in every sandzak (major territorial unit)

<sup>5</sup> See *Хаджийски, Ив.* Бит и душевност на нашия народ. Vol. 1. Sofia, LiK, 2002, p. 169.

<sup>6</sup> The central Turkish authority was greatly impressed with the good opportunities for supplying the army using Bulgarian craftsmen. It signed contracts with the guilds for the delivery of tens of thousands sets of military clothes. In the period between 1820 and 1830 the annual output of mantles reached 200 000 rolls.

<sup>7</sup> In 1819 the businessman from Sliven Dobri Zhelyazkov went to Germany to “collect knowledge and various skills” for the construction of a small woolen factory. In 1828-1829 he visited Ekaterinislav in Russia where he studied the textile industry and bought some machines and technology which he introduced back at home. In 1834 he started the production of woolen cloth. The local Turkish administration highly appreciated the quality of the cloth and sent samples to the Army Command. As a result, in 1835 D. Zhelyazkov was granted a charter by the sultan for the production of cloth from local

By 1876 more than 20 factories had been opened on Bulgarian territory, mainly in the weaving, alcohol and silk production, milling, tobacco growing and some other branches of the light and manufacturing industries.

On the basis of the existing studies and taking into account the specific economic conditions under the Turkish domination, we can outline the following features of the Bulgarian economic and entrepreneurial development prior to the Liberation:

- There was an almost complete dependency of the factory capacities on government purchases; furthermore, some factories were founded with the sole purpose of fulfilling a given order for the period of 2-3 years, and then were abandoned by their owners, mainly foreigners. Most of these factories were equipped with old machinery from France, Germany, and Austria.

- The lack of personal and political freedom of the Bulgarian entrepreneurs explained their restraint from long-term investments and determined their behavior of risk avoidance. The general uncertainty pushed the Bulgarian entrepreneurs towards a combination of low-cost, low-investment manufacturing and factory production.<sup>8</sup>

- There was no centrally organized system for the education and training of workers, neither a unified system of standards and quality control;

- The lack of credit, the safety of investment, and the absence of a system for vocational training, needed for the introduction and utilization of new technologies, accounted for the poor technical level of the Bulgarian production.

The development of the manufacturing production and the increased imports also stimulated the *commercial entrepreneurship*<sup>9</sup> on Bulgarian territory. The commercial entrepreneurship in Bulgaria developed in 3 basic forms:

- individual travelling producers-traders – this was one of the first types of trade on Bulgarian territory;

- a large number of small-scale traders organized in a large firm, who traded either for the firm or for themselves, but always using the firm merchandise;<sup>10</sup>

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and imported wool. A little later, in 1847 the Gjumjushgerdan brothers, well known entrepreneurs from Plovdiv, opened a private textile factory in the village of Dermendere, in the region of Plovdiv, which was made possible by a large order of the army for the production of cloth. The equipment was imported from Austria. In 1860-1870 it hired 30 employees and by the end of the period started turning out 2025 rolls annually. In 1869 Ivan Kalpazanov, an entrepreneur from Gabrovo and an owner of a factory for woolen braiding, built a blacksmith's shop for the production and repair of textile equipment (See Развитие на индустрията в България.. Sofia, 1990, p. 47)

<sup>8</sup> The Gjumjushgerdan brothers, for example, produced one fourth of the government order in their factory in Dermendere and the other three-fourths in their manufacture shop.

<sup>9</sup> One of the specific features of commercial entrepreneurship was that in the beginning it was initiated and performed by the producers themselves. The domestic exchange increased greatly after the abolition in 1943 of the so called internal duties on the basic agricultural produce.

<sup>10</sup> Some of the big trade associations, which originated at that time, were founded by the Christo and Nikola Pouliev brothers, Evlogui and Christo Gueorguiev brothers, Tupchileshtov brothers.

- yearly trade fairs in different cities, where not only a lively exchange of goods occurred, but also a real competition between importers and producers.

The commercial capital paved the way for the establishment of capitalist exchange relations, characterized by real competition and prices, which made the machine capitalist production easier. Meanwhile, the traders suffered severe physical persecution, often resulting in death.<sup>11</sup>

The analysis of the state of the Bulgarian trade entrepreneurship before the Liberation allows for the following conclusion: the lack of civil and political liberties in the Ottoman Empire, despite their formal proclamation by the government placed the trade entrepreneurs in a very difficult position. Unlike the industrial producers, who were essential for the supply of the Ottoman army, and were therefore protected to some extent by law, the trade entrepreneurs were an easy target for every local Ottoman ruler. This general uncertainty caused the predominant part of the large-scale Bulgarian traders to direct their financial resources outside the borders of the country.

### **Development of the Bulgarian Entrepreneurship between the Liberation and 1912**

Despite the expectations of the Bulgarian population, the liberation of the country did not lead to a rapid development of the economy. The reasons for this were different:

- The industrial factories founded prior to the liberation, with the exception of D. Zhelyazkov's textile factory in Sliven, were all demolished.
- A large number of the Bulgarian traders were killed.<sup>12</sup>
- The country did not have a banking system that provided trade and production credits.
- The accumulated trade capital that was taken out of the country during the period of the Ottoman domination, was never brought back to Bulgaria to be used in the development of the financial and industrial capitalism.

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These associations had all the signs of present-day entrepreneurial networks: exchange of information, common accounting, trade correspondence, analysis of price and currency fluctuations on the world markets, etc.

<sup>11</sup> The accumulated wealth made them an easy target for the Turkish authority, which did not hesitate to resort to violence and murders. Thus, the Radkov brothers were killed in Sivlievo and the merchant M.h. Tzachov from Turnovo also found his death. These circumstances caused the specific behaviour of most of the tradesmen from Bulgarian origin, who were eager to export their incomes and capitals abroad. Some went to Constantinople, where they founded one of the biggest Bulgarian communities, others preferred Braila, Bucharest, Odessa and other cities bordering the Ottoman empire.

<sup>12</sup> A large part of the tradesmen and craftsmen were ruined or killed in the time of the Liberation war. Out of 279 families only 62 were still on the list of the postliberation entrepreneurs. People like I. Kalpazanov from Gabrovo, I. Grozev from Karlovo, I.h.Petrov of Bourgas, who turned from small businessmen into big capitalists were only an exception from the rule (See Развитие на индустрията в България..., p.41).

The overall unfavorable environment was further accentuated by the sudden aggravation of the trade conditions, as well as by overall economic and political uncertainty until the Unification in 1885. The Bulgarian lands were divided in two, and the more industrialized Southern Bulgaria remained an Ottoman protectorate. This not only slowed down the emergence of a unified national economy, but also weakened the market, already reduced by the Berlin Treaty. With the cease of purchases by the Turkish army the industrial and crafts production lost its most reliable customers.

The deterioration of the economic conditions was further reinforced by a fall in the transportation prices in the large European countries, the establishment of a direct train connection with Europe through Belgrade, and the preservation of the low import duties negotiated by the Ottoman Empire with most of the European countries for a period of 15 years.<sup>13</sup>

As a result of the entrepreneurial activity<sup>14</sup> of Bulgarian and foreign citizens in 1887 there were 36 mills, 23 small tobacco factories, 10 breweries, 5 distilleries, 5 textile and 8 leather factories, 1 dyer, 1 cement and 3 soap factories in Bulgaria. By the beginning of 1901 the number of factories was 103 with some 4700 employees.<sup>15</sup>

At the same time the mass machine production, both domestic and import, caused the large-scale bankruptcy of the small domestic producers<sup>16</sup> and their becoming a part of the newly-formed working class.

The bankruptcy of the domestic industries and the rapid amalgamation of land ownership in the Bulgarian village resulted in a heavy migration to the towns and cities. The total number of factory workers in 1912 rose to 19 500. The urban population grew rapidly from about 117 000 in 1880 to 236 000 in 1912. The changes brought about a new type of urban society characterized by new consumption patterns and life style. The citizens consumed a much higher share of manufactured goods than the self-subsistent rural population.

The development of the Bulgarian entrepreneurship in this period was greatly enhanced by the special legislation favouring the big industrial business.<sup>17</sup>

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<sup>13</sup> The adoption of the first Bulgarian customs tariffs in 1883 did not change the state of affairs significantly as it was related to the neighbouring countries, which accounted for one fifth of the exchange only.

<sup>14</sup> In spite of all the negative factors in the economic development after the liberation as early as in the autumn of 1878 J. Kovachev opened a new printing house in Plovdiv. K Michailov and D. Ivanov started a glass packing factory in Kazanluk. In 1880 three businessmen – Saraivanov, Kyuvaliev and Popov founded a textile factory in Sliven. The first foreign capital factories were opened in 1880s, too (See Развитие на индустрията в България..., p. 39).

<sup>15</sup> Ibid., p. 40.

<sup>16</sup> Statistical data from the end of the 19<sup>th</sup> century show a decrease in the number of craftsmen in Samokov from 456 in 1875 to 58 in 1888. In Kazanluk the respective numbers are 146 and 65, in Stara Zagora – 439 and 86. The census polls from 1880 and 1884 indicate a reduction of the number of craftsmen from 64 000 to 32 000. The same pattern characterized the hand weaving in the Rhodope region, the woolen brading in Gabrovo, iron production in Samokov (Ibid., p. 41).

<sup>17</sup> The Act on the Stimulation of the Local Industry was passed in 1894 and enforced in 1895. It envisaged the following privileges for the entrepreneurs: duty-free import of machines and technology;

The Bulgarian economy received a substantial impetus from the entry of large foreign banks into the country. They solved one of the basic economic problems – the one of industrial financing. The inflow of foreign bank capital helped reduce the existent high interest rates and influenced positively the Bulgarian entrepreneurship. Railroad construction throughout the country was of particular importance as it caused a substantial cut on the transportation costs of producers and merchants and facilitated the marketing of industrial goods. The general economic expansion stimulated the opening of the first vocational educational facilities. In 1912 there were 24 handicraft schools and 9 trade schools.

The outcome of the joint state and entrepreneurial efforts to build the Bulgarian industry can be summarized as follows:

- Regardless of the expansion progress made, the absolute values of a number of economic indicators were still rather low compared to the ones of the industrialized states. For example, the number of factory workers was 195 000 and the share of industrial workers in the total population was as low as 0.45% for Bulgaria, while the respective number in the USA was 11%, in Germany – 18% and in Britain – 16.5%.<sup>18</sup> The annual per capita industrial output amounted to 28.3 mln. gold levs, while the respective number for the USA was 217 dollars or 1128 gold levs, i. e. more than 40 times less.

- In the first decade of the 20th century domestic and handicraft period of the Bulgarian industry and entrepreneurship came to an end and the country entered a new stage. While for the period between 1894 and 1904 the average rate of increase of the industrial output was 7.8%, in the next period from 1904 to 1912 it went up to 17.4%. The consumption of industrial goods in 1912 showed a phenomenal 400% increase compared to 1894.<sup>19</sup> The Bulgarian industry entered a phase of accelerated accumulation of capital and a high rate of return. This process was strongly stimulated by the industrial policy of the new state, which granted entrepreneurs practically complete tax exemption.

### **The Bulgarian Entrepreneurship prior to 1994**

Due to the megalomaniacal ambitions of the tsar and the national catastrophies that followed, the involvement of the country in a series of wars had exceptionally unfavorable consequences for the national industry.<sup>20</sup>

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free public and municipal sites for the construction of enterprises; free utilization of public natural resources like water, quarry materials, etc.; reduction of railroad tariffs by 35%; exemption from taxes like property tax, occupation tax, etc. In spite of the controversial assessment of its effect, the Act played a decisive role in the industrialization of Bulgaria.

<sup>18</sup> See Развитие на индустрията в България..., p. 50.

<sup>19</sup> Ibid., p. 47.

<sup>20</sup> The economic incompetence of the tsar government was demonstrated mainly in the lack of mobilization plans for the management of the industry and the lack of stocks of raw materials and machine spare parts. As a result of these and other reasons more than 60% of the industrial enterprises in 1916 did not work. The number of militarized factories, which went under government control rose to

The restoration of industrial production after the 1912-1918 wars was accompanied by controversial and short-lived successes as well as by further aggravation of the fundamental economic problems.

The physical preservation of the industrial equipment allowed for a hasty recovery of the economy after World War I. There was a rise in the population as a result of the increased birth rate, the influx of refugees from the lost Bulgarian territories and the immigration of some 20 000 whiteguard soldiers who fled from Soviet Russia. Particularly favourable was the increase of foreign capital, mainly Belgian and French, as well as the foreign direct investment in the form of bank credits.<sup>21</sup>

The rise in the income of the rural population and the increase of the nominal wages of factory workers caused a great expansion of the domestic market. The government also resumed its special protectionist legislation.<sup>22</sup>

The contradictions of the Bulgarian economy grew deeper and certain processes and factors, which hampered its development, appeared. These can be briefly presented in the following manner:

- The economic role of the Bulgarian state underwent fundamental transformation. The economic policy until 1912-1918 had been of a clear-cut liberal character, which gave way after the wars to a well-formulated interventionism and unprecedented measures protecting and stimulating business activity. For example, in 1929 the sum total received by beneficiaries of government aid amounted to 1/8 of the revenues of the state budget.<sup>23</sup>

- The passing of the Decree, which set up the 8 hour work day in 1920s, marked the beginning of the struggle between organized labour and capital mainly concerned with the intensification of labour. The nationalization of big industry in 1947<sup>24</sup> put an end to this struggle.

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141 by the end of the World War I. During that period the Bulgarian industry was incapacitated but stayed intact as no military activities were waged on the territory of the country and no destruction occurred.

<sup>21</sup> This was how the Pernik thermo-electrical power station and the Koralovag shipbuilding company were built.

<sup>22</sup> The government of the Bulgarian Agrarian Union from 1920 introduced a tax on the profit of industrial and commercial companies based on the rate of return. The cabinet of the Democratic Alliance from 1925 made an amendment to the Law. First, it reduced the tax rates; second, it introduced a deduction from the tax of the annual depreciation, which ranged between 2 and 5% for buildings and up to 10% for machine and equipment. The law also envisaged a deduction of the reserve fund up to 10% of the profit. These measures practically guaranteed the big business a complete exemption from tax on profits.

<sup>23</sup> See *Тодоров, Д.* Насърчаваната индустрия и индустриалната политика на България. - Стопанска мисъл, Sofia, 1939, N 4, p. 60.

<sup>24</sup> Because of the relatively long work day – 10-14 hours- this problem was not given enough attention by the Bulgarian entrepreneurs. The coming into power of the government of the Bulgarian Agrarian Union headed by A. Stamboliiski, changed significantly the configuration of power. Under the pressure of the left-wing movement the cabinet passed the 8-hour working day decree. The losses caused by its introduction forced the businessmen to start searching for organizational and managerial

- There was a slow but persistent loss of credibility in the Bulgarian currency, the lev, especially after the introduction of mandatory paper money. The instability of the rate of exchange and the monetary system as a whole additionally reinforced the general atmosphere of uncertainty, characteristic of the Bulgarian economy between World War I and 1944.

- No agreement was reached between the organized labour and capital as had already happened in the more developed industrialized countries after the Great Depression in 1929 – 33, because of the progressive orientation of society towards left-wing ideas under the influence of Marxist theory of class struggle and the opportunities, mainly due to the protective government policy, for the big business to retain high profit rates.

The full-swing individualization of payment, as well as the introduction of piece-rate and profit-sharing schemes never found a place in the Bulgarian business practice. The contract between the big business and the organized labour was virtually never “signed” here until 1944.<sup>25</sup> The social structure was as follows: self-employed – 975 646, hired workers – 2 455 738, inactive – 1 052 342.<sup>26</sup> This was the fundamental reason for the upward left-wing trend in organized labour, which would bring about the political takeover by the Communist party in 1944.<sup>27</sup>

### **The End of the Entrepreneurship and Its Metamorphoses under the Conditions of the Centrally Planned Economy**

The nationalization of the industrial and banking system was carried out on December 23 1947<sup>28</sup> in full secrecy after a systematic and comprehensive three-year preparation. The country was taken over by a new ruling class, which

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tools to raise productivity. One of the solutions they found was the system of scientific management of F. W. Taylor and his principles of the individualization of payment. Some companies like Trud ceramics factory in Rousse and Cartel tobacco factories started administering standards as well as introducing pay incentives like piece rates and bonuses. The workers and trade unions fought these measures strongly because they perceived the scientific organization of labor as a “sweat system” and not as a means to raise their income and improve the competitiveness of the Bulgarian industrial commodities.

<sup>25</sup> This caused the inevitable huge loss of competitiveness of the Bulgarian industry in comparison to the leading European countries and intensified the contradictions between labour and capital immensely.

<sup>26</sup> Estimated on the basis of Статистически годишник на Царство България, 1940.

<sup>27</sup> This is one of the explanations why Bulgaria was permanently “pregnant” with socialist ideas prior to 1944. The very nature of the processes described and their consequences were never grasped by the Bulgarian entrepreneurs mainly because of the favourable conditions for keeping profits high brought about by the protective legislation.

<sup>28</sup> The private industrial property suffered the first blow by the Act on Confiscation of Property Acquired Illegally or by Speculation. However, it seemed insufficient to the new political leaders from the Bulgarian Workers Party. Nevertheless, in 1947 the private and public-private sector provided 53.1% of the value of industrial output, hired 61.1% of factory workers and comprised 3 857 out of 4 628 enterprises (See Развитие на индустрията в България..., p. 270).

started implementing the ideas of a centrally planned economy and the theoretical concept of universal equality.<sup>29</sup>

The nationalization campaign left the craft industry, the co-operative and nongovernmental organizations' enterprises untouched unless the latter had lost their character as such. The right to determine their character and belonging was granted to the Ministry of Industry, the Central Co-operative Union and the United Craftsmen Trade Union. As a result, part of the craft and cooperative industry was left in the hands of the previous owners but the share of private production fell drastically.<sup>30</sup> In spite of the strict control of the socialist state, the political repressions and deprivation of the citizens of their property rights, the right of education or mobility, the Bulgarian entrepreneurship availed itself of these scarce opportunities and underwent serious metamorphoses. It changed its behaviour so that the entrepreneurial spirit could be preserved.<sup>31</sup>

### **The New Beginning – Restoration of the Bulgarian Entrepreneurship after November 1989**

From the very beginning of the transition from a centrally planned to a market economy the problems of the entrepreneurship and the development of small and medium-size enterprises (SME) were overshadowed by the widely proclaimed idea of an "equal start" and a "just" mass and cash privatization. The Bulgarian society has been focused on the process of disintegration of public ownership. The common belief, nourished on purpose by party media, has been that the transformation of public property is a process, which will cause an improvement in the well being of all Bulgarian citizens. The new social paradigm, which has the economic freedom at its core, remained uncomprehended by the majority of Bulgarian society for some time. According to some researcher of the transition<sup>32</sup> this happened as late as 1997 when the state started its real retreat from the economic positions it had taken.

The Bulgarian society has found it difficult to accept the inevitability of social inequality, caused by the differences in people's skills and capabilities. It has not grasped the real nature and intricacies of market interaction. It has looked for new Utopian models of universal prosperity. The result is that no

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<sup>29</sup> The right to start a new business as well as all commercial plans under this system belonged solely and uniquely to the state. Concepts like "entrepreneur", "private property", "profit" and "competition" became part of the forbidden language in Bulgaria.

<sup>30</sup> For example, in 1951 the small cooperative sector provided 11.8% and small craft industry – 2.3% of the total industrial production (See Развитие на индустрията в България ..., p. 272).

<sup>31</sup> Two laws – the Cooperatives Act and the Obligations and Contracts Act contributed mostly to the preservation of the traditions of the Bulgarian entrepreneurship, though on a very limited scale.

<sup>32</sup> As E. Dainov wrote: "In the small towns the notorious "paying the price of the reforms" did not happen in the beginning of 1990s. Until the real start of denationalization in 1997-1998, life there had not undergone significant changes." (See Дневник, 8. 10. 2002).

government since the overthrow of the previous regime in November 1989 has found a place on its agenda for active support of the entrepreneurship and small business.

The importance of free entrepreneurship and SMEs in the transition process not only for opening of new jobs, but also for the creation of a new market culture and entrepreneurial values, like a new attitude to obligations, discipline, good timing, abiding by the rules, etc. have been time and again stressed by the foreign advisors,<sup>33</sup> but to a little purpose.

Actually, the process of starting new small businesses in Bulgaria started even before 1989. Several acts laid the ground for it – Decree N 12 of the Council of Ministers from 1982, a Decision of the Bureau of the Council of Ministers from 1984 and Decree N 56 from 1989. Some 650 small and medium-size enterprises had been set up by the beginning of the transition.<sup>34</sup> The economic freedom enjoyed by the Bulgarian citizens after 1989 found an immediate expression in the increasing number of newly registered companies. The number of simple proprietorships for the years prior to 2000 are as follows: 1993 – 273 194; 1994 – 314 818; 1995 – 383 328; 1996 – 56 328; 1997 – 335 915; 1998 – 205 643; 1999 – 188 875; 2000 – 205 907.<sup>35</sup>

Even if some reduction of the nominal numbers is accounted for, as early as 1995 the functioning private enterprises in Bulgaria were more than 200 000 which makes 22 SMEs per 1 000 people. For a comparison, the corresponding number in the EU is 45 and in the USA – 57.<sup>36</sup>

The main part of the SMEs is in the sphere of commerce, where, as analyses show,<sup>37</sup> the start is much easier. Although all comparative studies of SMEs in the transition economies point to the importance of legislation and the need of real support, in practice no change in the attitude of the central authority towards the small business has been noticed in Bulgaria. Not a single government since November 1989 has found it necessary to include in its policy agenda well-tested tools of regulation<sup>38</sup> and support of SMEs like:

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<sup>33</sup> See *Смолбоун, Д.* Подпомагане развитието на МСП в страните в преход: поглед от Запад. – In: *Индустриална организация и предприемачество в условията на преход*, ред. М.Димитров и К. Тодоров. Sofia 1996.

<sup>34</sup> See *Тодоров, К.* Управление на фирмата. Sofia, 1992.

<sup>35</sup> See *Statistical Reference Book* for the corresponding years. When reporting the number of registered companies a couple of points should be taken into account. First, a part (1/4) of the registered companies exist only as an intention, i. e., they are not active. These are the so called "frozen firms", which file annual declarations, filled with "zero" data. Second, there is the group of registered (another 1/4), which are used by their owners to redistribute their income in order to exempt taxes. This means that when evaluating data quoted by different sources – research studies or public institutions – the real numbers can be reached by reducing the nominal values by one half.

<sup>36</sup> See *Ван дер Хост, Р.* Предприемачеството в Западна и Източна Европа. – In: *Индустриална организация и предприемачество в условията на преход*. Sofia, 1996.

<sup>37</sup> *Ibid.*, p. 281.

<sup>38</sup> See *Смолбоун, Д.* *Op. cit.*

macroeconomic policy aimed at making a friendlier environment by protection of the competition; differentiation of government legislation according to the size of the economic agents; building up of a positive public opinion concerning the role of the small business and free entrepreneurship; elaboration of a flexible industrial policy aimed at SMEs. As a result, small owners and entrepreneurs have become fully aware that “the market process of co-ordination become possible only if the individuals are free and independent to plan their actions and to put their plans into operation”.<sup>39</sup> Intuitively and after many “trial-error” attempts most of them have come to know that the external environment influences them mostly through the regime of economic liberties provided for by the state. The rights of personal choice, voluntary exchange, free competition and security of property rights are fundamental economic liberties. Their protection and enforcement is the fundamental obligation of any government and the state in general.

As a result of the adopted model of transition to a market economy in Bulgaria, the state and the political forces have consistently neglected the protection of basic economic freedoms and have left the responsibility entirely to the international organizations. According to the annual Economic Freedom of the World (EFW) report, published by the Fraser Institute,<sup>40</sup> Bulgaria ranks 97 out of 123 countries (being surpassed even by countries like Namibia and Nepal) with an overall score of 5.3 out of 10 (10 is the highest and zero – the lowest).

In general the state of the most important freedoms can be evaluated as follows:

The right to a free personal choice is the most important component of the economic freedom. In an economy based on private property freedom awakens and stimulates the individual initiative and ambitions. It places the people under new conditions in which the external control is reduced and they are able to make a much better use of their internal resources – knowledge, skills, and accomplishments – to put their intentions into practice. The right to a personal choice is subjectively defined by the individual’s aptitude for self-expression and performance in the social community. Freedom secured by society has the function to objectivize the aptitude and make the individual a thinking, choosing and evaluating creature. The freedom awakens and instigates the aspirations to choose freely. The state is called upon to provide the objective conditions allowing for the realization of the individual right to a personal choice. In practice this means less state interference – public ownership, subsidies, waiving of tax obligations, administratively set prices, monopoly prices of state enterprises, price ceilings, etc. Bulgaria’s WFW score for business regulation is 5.4, which means that the real working environment in

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<sup>39</sup> See Индивидуализъм и пазарна култура. Varna, 2000, p. 10.

<sup>40</sup> [www.fraserinstitute.ca](http://www.fraserinstitute.ca)

the country limits the economic agents and their right to choose. This has a negative influence on competition and economic activities.

As a constituent of the overall policy concerning business a special attention should be paid to the evaluation of the regulation of labour markets. Being an element of business conditions, the right to hire and be hired is also a very important freedom. The EFW index which reveals the state of this right in Bulgaria is 4.9, which reflects an undiminishing state interference in the process. This is being confirmed not only by Bulgarian, but also by foreign analysts of the business environment in the country. The consequences of such an intervention are: first, the heavy social insurance burden, and second, the introduction of additional administrative barriers in the employment process.<sup>41</sup>

Even though the conclusions mentioned above are undoubtedly justified, they seem to be in a way one-sided. The labour market, like any other market, has two sides. Stressing one of the sides means either partiality or an insufficient appreciation of the problem. While the employers' interests are well presented by different lobbies in the Parliament or in the cabinet, the interests of the employees are practically not defended. The acting Labour Code in no way reflects the real needs of both parties in the "capital-labour" relations.<sup>42</sup> The existing state of affairs has brought about one of the most destructive social ideas, the lack of recognition and a complete underestimation of the individual participation in work and payment.

As a result of this government approach to the labour market some disturbing tendencies in the labour relations have been observed in Bulgaria. A study by a British research agency TNS, titled "2002 Global Employee Commitment Report"<sup>43</sup> which surveys 33 countries shows that the motivation and commitment of employees to their job and company in Bulgaria is at the lowest degree (out of four). According to the survey, 58% of the Bulgarian workers responded that they were not committed to their job or company and only 30% said that they are strongly committed. On a more global scale, however, the relation of committed to uncommitted employees is 43 to 35.

The economic practice in the period since the beginning of the transition has demonstrated that the freedom of voluntary exchange proclaimed by the government is irrelevant without the protection of property rights and an enforcement of contract obligations. The judicial system fails to secure such a protection to the rightful party in the civil law cases and is vulnerable to pressures. Studies of specialized consulting firms<sup>44</sup> show that Bulgaria has a

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<sup>41</sup> Условия за правене на бизнес в България. Sofia, 12/2002.

<sup>42</sup> The Chairman of the Union of the Bulgarian Employers, Vasil Vassilev says: "In its present form the Labour Code oppresses workers to employers, tolerates indifference, low-quality and neglect of one's work". (See Дневник, 21. 11. 2002).

<sup>43</sup> TNS, Global Employee Commitment Report, 2002.

<sup>44</sup> Foreign Investment in Bulgaria, 2002, KPMG.

controversial and unpredictable legal system,<sup>45</sup> which discourages foreign investors. In addition, the legal procedure related to the property rights and contract enforcement is cumbersome (it has 26 stages) and its duration is 410 days on the average. A comparative survey<sup>46</sup> of the judicial systems show that only Romania (28) and Lithuania (30) have more steps but on the other hand the duration of the process there is substantially shorter – 225 and 160 days respectively. In the same survey we can see that in the USA the same procedure takes 54 and in Japan - 60 days. This is one of the explanations why, although the EFW score for the integrity of the legal system is comparatively high – 6.7,<sup>47</sup> the Bulgarian entrepreneurs and small business owners, having once resorted to the judicial system as an arbiter of their claims, never repeat their attempts.

What really matters to the entrepreneur as well as to any other individual who goes to court is: first, to be able to rely on its impartiality, and second, to be compensated for the damages for a reasonable period of time in case of a positive decision. Otherwise, the entrepreneur would only bear costs and no real benefits.

If we try to translate the fundamental characteristics of economic freedom analyzed above into the everyday language of the entrepreneurs, we can sum up that the practical rules of business behaviour are substantially different from the rules envisaged by the law.

In summary, the performance of the state and its specific policy after November 10<sup>th</sup> 1989 are responsible for the following features of the overall economic development and the entrepreneurship in particular:

- The fundamental transformation from a centrally planned to a market economy has started with the establishment of the most essential economic freedoms like the freedom of private property, of association and contract. However, the people from the small and medium-size business community have rapidly come to know, that the enforcement and protection of liberties are at least as equally important as its proclamation. Under the new economic conditions the self-originated business has proved again to be in an unequal position compared to the business started by the state, political parties and big organizations.

- Once the state has given up its role of a regulator and “referee” of the process, new symptoms of the fusion of economic and political power have appeared. Once in power, every new political force is desperate to find its own economic groups who, loyal to their instincts, start profit immensely from the extortion of state property. In spite of the claims for a “nationally responsible” big business, for “business integrity”, etc., the character of the initial

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<sup>45</sup> Ibid.

<sup>46</sup> See Бюлетин на ИПИ, April 2003.

<sup>47</sup> [www.fraserinstitute.ca](http://www.fraserinstitute.ca)

accumulation of capital – a forceful acquisition of property rights – has been preserved. The failure of the state to guarantee and enforce the market agent's rights has turned the market process from an "honest competition" into a "dirty game" with no rules, dominated not by the most-responsive, adaptive and alert entrepreneurs, but the players with the strongest political support.

- The strong connections of the big business with the political power, its open rejection of any social responsibility, accompanied by tax evasion or pumping profits out of the country by means of branch offices registered in off-shore zones, as well as the deliberate accumulation of interfirm loans, especially to state electric suppliers and transportation companies have had the combined effect distorting the market environment, compromising competition and deteriorating the general climate for entrepreneurship.

- The failure to introduce individualization of pay incentives and responsibility as well as the lack of an agreement between the big business and the organized labour has caused demotivation at work. Low productivity, indifference to the results achieved, social apathy and progressing poverty come as natural consequences.

- The disproportions in the newly formed social structure of the Bulgarian society reflect the problems discussed: the number of employers in 2000 was 69 000, self-employed – 276 000, employees – 2 344 900 and unemployed – 590 000.<sup>48</sup>

## Concluding Assessments and Generalizations

### *Economic Freedom*

The development of the Bulgarian entrepreneurship and economic performance, assessed from the perspective of the economic freedom, has passed through three stages:

*Stage 1* – from the Liberation from Turkish domination in 1878 to 1912 – it was characterized by a liberal economic regime, low taxes, government support and an encouraging, even euphorical economic climate.<sup>49</sup> The Bulgarian people, having dearly paid the price of the liberation, appreciated the political and economic liberties highly.

*Stage 2* – from 1918 to 1947 – it was defined by a downward trend in the economic freedoms. The new economic model, which was marked by an

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<sup>48</sup> See Statistical Yearbook. National Statistical Institute. Sofia, 2000.

<sup>49</sup> "Bulgaria was then a country of unlimited opportunities. Every career was built by personal qualities and merits. Wealth was made and not inherited. Everyone took the social position they deserved. This was the epoch of the Bulgarian Vikings, people without previous history, who relied on their own accomplishments, courage, alertness and ingenuity". (See *Хаджийски, Ив.* Сбч., Vol. 1. Sofia, 1974, p. 33).

intensive state interference, failed to introduce individualized labour standards and payment, and profit sharing schemes. The consequences of such a regime were falling labour productivity, progressive impoverishment of the working class and severe social clashes.

*Stage 3* – after 1989 – it has been characterized by a duality in the economic freedoms. On the one hand, the personal free choice, voluntary exchange, competition, property rights, freedom of entry into business, etc., have been explicitly declared by the Bulgarian constitution. On the other hand, the enforcement of these rights has been arbitrary, depending on the goodwill and interpretation of each government, administration, judge, etc. In practice the economic agents have not been equal before law. The lack of real economic freedoms has forced the entrepreneurs to find their own “means” to enforce rule-abiding, property protection, fulfillment of obligations, etc. Such an approach has laid the foundations of the semi-legal and illegal (grey and black) economy.

#### *The influence of the European economic culture*

Judging from a public debate in the 1920s titled “Why are we such”<sup>50</sup> and the recent debate on the “state of Bulgarian society”,<sup>51</sup> based on a study of the Open Society foundation, we can conclude that there are expectations for favourable consequences of the country’s accession to the European Union structures.

The Western European economic culture and moral – specific skills, rules, customs, and tools – can be adapted to the Bulgarian conditions. The Bulgarians are easy to train. They are open-minded to European lessons. Unlike Western entrepreneurship which derives its rules of conduct and values like confidence, thriftiness, responsibility, respect for profit, readiness to pay one’s loans, etc. from its own traditions and institutions (the protestant church, in the first place), the Bulgarian entrepreneurship, both in the Post-liberation and in the present transition period has never managed to find its own sources of morals. This is the reason why it has been constantly

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<sup>50</sup> St. Bochev wrote: “All our economic and financial crises since the Liberation have been marked by the clash with the outside world. The influence of the European culture has been overwhelming. We want its fruits but reject its economic structure, which is capitalistic in its nature. We hope we can omit the credit, capitalist stage in the development of the country. We wish we can enjoy the benefits of the bourgeois, capitalist social order without capitalism, its organization (based on the scientific system of labour intensification, introduced by Taylor – I. K.) and enterprises” (See *Бочев, Ст. Капитализмът в България*. Sofia, 1998, p. 252-253).

<sup>51</sup> “We cannot guarantee that we have the capacity to become a modern Western society by our own efforts. As a country we are capable of accepting directions and recommendations from abroad and to follow them to a certain extent.... To change the way we do things... We are not a knowledgeable society. We are a society which has to learn” (See *Дебатът върху състоянието на българското общество*. - Дневник, 8.10.2002).

adopting the moral traditions and values of the West European entrepreneurship.

#### *The excessive government intervention*

As early as the first decades after the Liberation from Turkish domination the Bulgarian entrepreneurs became aware of the idea that it was the symbiosis of the political and industrial power that provided the most easily achievable and profitable business strategy. The Bulgarian state adopted a massive interventionist policy<sup>52</sup> that concerned the big business and ostensibly presented it as “protection of the domestic industry”.<sup>53</sup>

The acts alleviating the burden of bad loans in 1930s, on the one hand, and the permanent protectionist legislation “nurtured” an unhealthy and uncompetitive economy. The state intervention contributed greatly to the low technological level of the Bulgarian industry, the poverty and the left-wing tendencies in the labour movement.

There is a striking similarity between this period and the period after 1989. Throughout the transition period to a market economy the state has been behaving as a principal planning agent with omniscient and omnipotent powers. In 2003 only the government allotted 100 mln levs to a new venture fund, put 30 mln into the restoration of the national air-carrier, earmarked 100 mln levs for the creation of new employment opportunities which turned it into the biggest entrepreneur in the country. In addition, it continued subsidizing grain production, introduced protective duties on fertilizers, etc. The pressure from the companies for preferential treatment is perceived as nothing but an insignificant break into the market rules. The takeover of market initiatives by the state, no matter how good the intentions are, leads again to reduced competitiveness, low productivity, impoverished working class and small and incapacitated middle class.

#### *The social contract*

Absorbed by its own reorganization the Bulgarian state has once again failed to take care of the definition and promotion of the social contract between

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<sup>52</sup> See Бобчев, К. Покровителство и насърчение на индустрията в България. - СБИД, 1929, N 7-8, p. 346-357; Димов, Д. х. Какво е получила местната индустрия през 1912 г. - СБИД, 1914, N 9-10, p. 527-552; Хинков, Хр. Покровителството на едрата индустрия у нас. - СБИД, 1925, N 9-10, p. 368-379; Насърчение на местната индустрия и занаятчийство. - СБИД, 1928, N 1-2, p. 1-11; Михайлов, Н. Едрата индустрия у нас и нейното насърчение. - СБИД, 1925, N 1-2, p. 49-58, etc.

<sup>53</sup> In practice the political protection of the big business was secured by two tools. The first one was the Act on the Stimulation of Local Industry, mentioned above, which was in force (with some interruptions) through the 1930s. It guaranteed high profits to the Bulgarian companies under all conditions and raised the barriers against the foreign capitals. The second tool was the specific system of business credit, which was implicitly based on the idea of non-performance of loans.

business and labour. Studies of the transition<sup>54</sup> have revealed that “the nation is composed of masses and elite”, the masses are perceived as a victim of the transition, while the elite is the beneficiary. Translated into social behavioural patterns, such perceptions are the basis of an alienation from the political system, translated into economic behaviour – of an alienation from labour. Thus, 59% of the Bulgarians think that the “pyramid” of society is too poles apart – “a tiny elite and a huge bottom”.<sup>55</sup> If we compare the social structure in 2000 to that in 1934-1940 (taking into account the methodological difference in measurement), we inevitably arrive at the conclusion: the contract between business and labour and the unfavorable consequences of the failure to promote it in society is of paramount importance.

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A small and poor market, the lack of specialized technical and economic education and culture, the chronic shortage of capital, the failure to formulate the agreement between business and labour, the fusion of big business with political and party power, the interventionist state policy, the poor protection of basic economic freedoms – these are some of the factors that shape the model of present-day Bulgarian entrepreneurship. The accession to the European Union is connected not merely with the solution of a number of technical problems, but, more importantly, with a dramatic change of the economic and entrepreneurial culture of the Bulgarian citizens, who need to change their attitude to issues like time, money, capital, social justice, contract obligation, social responsibility, discipline, tax payment, etc. This is a continuous and painful process, which requires the efforts and attention of the business community, the state and the whole society.

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<sup>54</sup> See Дебатът върху състоянието на българското общество. - Дневник, 8.10.2002.

<sup>55</sup> See *Тилкиджиев, Н.* Средна класа и социална стратификация. Sofia, 2002, p. 305.