

Ivan Angelov, Professor, Dr. Ec. Scs. Corr. Member

STRATEGIC ASPECTS OF THE ECONOMIC DEVELOPMENT OF BULGARIA UNTIL 2020¹

The author discusses important strategic aspects of the economic development of Bulgaria until 2020. On some key issues the analysis penetrates further in the following decades. As it was 100 or 50 years ago, as well as at present, Bulgaria was and is among the last in Europe in terms of the most important economic, social and other indicators. One argues that the country can not afford staying on this ranking over the following years and decades. The citizens of the country would not tolerate it, and the other EU members would start looking at us as an accidental foreign object in the community's organism. One could get out of this uneasy situation only through an accelerated catching up development. A thorough description of the catching up development is provided, as compared to accelerated development. The key priorities in the economic development of the country are pointed out. The most important strategic economic objectives of Bulgaria until 2020 are identified, and the ways and means for their implementation are enumerated. Two strategies are also compared.

JEL: E20, O11, O40, O52, P24, P27

Where are we now?

There are statements of people with biased thinking, saying that before the World War Two Bulgaria was among the leading countries in terms of economic and social development. This is not true! 100, 60 or 20 years ago Bulgaria was where it is now – last or among the last in Europe in terms of economic development. We have been advancing, but the same has been done by the other European countries, even better than us. As a result the distance between us and them was growing. If 20 years ago we were approximately at the same level or slightly lagging behind on the most important economic indicators from Poland,

¹ The successful economic development depends upon many external and internal factors, the most important being the appropriate economic policy. On this issue see: *Angelov, I.* Economic Policy of Bulgaria as Member of the European Union. *Economic Alternatives*, UNWE, 2007, N 6, pp. 3-26; *Economic Policy of Bulgaria*, *Ponedelnik*, 2008, N 1/2, pp. 68-80. See also www.iki.bas.bg/CVita/angelov/index.htm Publications 89, 90, 93 and 95.

For more details on objectives, priorities and means of economic development see: *Angelov, I. and others.* The Economy of Bulgaria and the European Union. Strategy for Catching up Economic Development until 2020. Institute of Economics of the Bulgarian Academy of Sciences and Foundation "Friedrich Ebert". Sofia, Stat print, November 2003, 354 pages (in Bulgarian); *Angelov, I.* Strategy for Accelerated Economic Development of Bulgaria by 2020. Expanded Summary of Conclusions and Recommendations. Institute of Economics of the Bulgarian Academy of Sciences and Friedrich Ebert Foundation. Sofia: Marin Drinov Academic Publishing House, January 2004, 76 pages (in English); *Angelov, I. and others.* Catching up Economic Development – Strategy and Realities. Institute of Economics and Friedrich Ebert Foundation. Sofia: Marin Drinov Academic Publishing House, December 2006, 460 pages. These publications can be found on my web site address N 25, 43 and 71.

Slovakia and Hungary, or slightly below and moderately lagging behind the Czech Republic and Slovenia, at present they are 10-15 years ahead of us.

According to Eurostat in terms of GDP per capita in 2008 we have 40.1 per cent of EU-27; on labour productivity – 36.4 per cent; on real income – 32 per cent. In terms of overall competitiveness in the ranking of the World Economic Forum in Davos for 2009-2010 we are 76th (on basic requirements – 80th; efficiency enhancers – 62nd and innovation factors – 89th)² of the 137 countries covered by their survey, and 27th – the very last among the EU member countries on competitiveness in the framework of the Lisbon strategy. This means that ahead of us are not only all members and applicant countries of the EU, but also 30-35 developing countries from Africa, South Asia, Latin America and the Caribbean. In terms of income diversification we are among the most polarized countries within EU. Only some of the former Soviet republics are more polarized. On the most important economic, social, environmental and other indicators Bulgaria is 40-50 years and more behind the advanced Western European countries.

Can we Afford Staying at the Bottom of the European Rankings?

A very difficult future is ahead of us unless we embark on accelerated catching up development. Bulgarian governments must do it for their own people, who are willing to work harder for a better life. Bulgarians communicate now closer with the Western Europeans and are learning to work like them and achieve a comparable quality of life. Most of our people understand that this is possible only through harder work and entrepreneurship. European quality of life requires European productivity of labour. The power of the emulation effect in the good sense of the word is growing. In order to meet the willingness and the expectations of the people one needs faster economic development. The goods must be generated first and then distributed and consumed.

We can not afford delaying our development and because the other EU member countries are watching at us. When the older EU members were admitting us in the Community on 1 January 2007 their leaders were aware that we were not meeting strictly the Copenhagen criteria and that during the initial period we will be like a foreign body in the economic and social organism of the Community. They were also aware of our severe problems due to the weak administrative potential, as well as in the area of internal affairs, crime and corruption.

They admitted us nevertheless because of our important strategic and geographic location, committing a compromise in the name of their global and regional geostrategic interests with a horizon of 30-50 years and more. Now they are monitoring and helping us. By doing so they help themselves. This monitoring

² The situation is even worse on some specific indicators: overall quality of infrastructure – 115th; quality of roads – 124th; brain drain – 128th; reliance on professional management – 121st; availability of latest technologies – 107th; firm-level technology absorption – 107th; university-industry collaboration in R&D – 102nd, etc.

may touch upon some sensitive national strings at home, but it is useful for our economic and social development. All facts prior to and after accession confirm that the reforms in Bulgaria are faster and firmer, when carried on under the EU pressure.

In the absence of such pressure most of them would not have happened. The Bulgarian administration was not willing or was not capable to undertake such reforms. Therefore, irrespective from the source of the initiative, what matters for Bulgarian citizens is improving the performance of public institutions and the quality of their life. This type of catalysing effect is even more useful for us than the financial assistance from the EU funds. The financial assistance can be discontinued if we do not stick to the EU rules. That is being confirmed by the meagre absorption of the pre-accession and structural funds, the numerous omissions and even crimes in their utilisation by Bulgarian entities and individuals, as well as the freezing of large amounts of financial resources by the European Commission during 2007-2009.

The major portion of the job, however must be done by us. If our EU partners do not see on our side a pursuit to pull out from the backwardness, they will begin to warn us, including by preventive clauses and financial sanctions. Bulgaria may thus find itself into economic and social isolation with all inherent negative strategic implications.

The Conclusion – Catching up Economic Development is Indispensable

The overcoming of the centuries old backwardness of Bulgaria is feasible only by catching up development. Catching up development is the one, which leads to narrowing down the distance between us and the advanced countries in terms of the most important economic, social, environmental, infrastructure, healthcare, educational and other indicators. In the more distant future (towards the middle of this century) one may expect conversion with the average levels of EU on these indicators only if we mobilise the national energy as well as under favourable external conditions. This is however far away from outstripping those average levels.

Catching up presupposes development with faster growth rates of GDP – 2.5-3.5 times higher than the average annual rates of the EU, which are expected to be 2.5 per cent over the following decades. During certain periods and years there will be fluctuations above and below these average annual levels, and even recessions, such as the present one.

Some critics of the catching up strategy believe that the right strategy is the one for outstripping development³. It seems to me, they have not learned a lesson

³ One should differentiate between catching up development by the level of GDP per capita, by labour productivity, incomes and other economic and social indicators, on one side, and catching up

from a famous strategy of the former Soviet Union over the 1970s for “catching up and outstripping” the USA, as well as the famous Chinese “leap forward” at the time of Mao. The following years and decades refuted totally the ambitions of such Utopian strategies.

The proclamation of outstripping development strategy is tantamount to an adventure. The support of such a strategy would mean ignorance and disregard of the realities at home and in the advanced countries. Such a strategy and the related economic policy will certainly fail with heavy consequences for our society. One could consider such a strategy after 3-4 decades, provided one achieved in the mean time successful catching up development and converge closely to the average economic, social and other indicators of the Community.

Catching up does not mean imitating the development of the advanced countries. It does not allow repetition even of the branch and sectoral patterns, the patterns of employment, incomes, consumption, healthcare, education, etc. If we take for instance production patterns, they are living organisms, which are being renovated over and over again. Old branches and sub branches are fading away and disappearing, new ones are emerging, flourishing, and contracting, giving way to new and more modern ones. These cycles do not coincide in various countries in time, intensity and duration. We neither can, nor should copy the present or future branch patterns of the most advanced countries. One should instead look for niches in some sub-branches or rather product groups – for types of products suitable for Bulgarian traditions, accumulated experience, available domestic and external market and present capacities. Within a selected niche we may develop faster than advanced countries, but only in this sense. This is impossible at macroeconomic level.

As far as national psychology, national culture, arts, traditions, language, national identity, etc. are concerned, there is no room for any discussion on catching up development. In those spiritual areas there is nothing to catch up, except to develop and enrich our own national values with which to impress upon our EU partners, and to enrich the Community with our diversity. Of course, we must impress upon them mostly with our hard work, productivity, creative inventiveness, entrepreneurship and decency. Only in this case Bulgaria could be adequate and respected member of the EU family.

Catching up and accelerated development is not the same. The former is richer in content than the latter, as not each accelerated development is catching up, while each catching up development is accelerated into a higher degree. In addition, with the catching up there is a specific objective for drawing closer to another country or group of countries in terms of specific indicators, within a specific term, while accelerated development is undefined, neutral, unrelated to other countries, and more abstract. For instance, 4-5 percent GDP growth,

development in terms of rates of increase on these indicators. While the former is impossible for Bulgaria for the time being, the latter is indispensable. The grounds for this are obvious.

compared to 2-3 percent in the EU is accelerated development, but it is not sufficient to catch up during the following decades.

And something else. Catching up development does not aim at catching up (drawing nearer or conversion) of a static (fixed) objective, but rather moving objective, as the countries we are catching up develop successfully. As stated above, we expect 2.5 per cent average annual growth in the EU countries over the following decades. Such a pace is not satisfactory at our low level of development, while it is substantial for them.

A more accurate measure of the intensity of catching up is the difference of the average annual increment of the volume of the GDP per capita between the catching up and the more advanced country. What matters is to enrich the content of each of our percentage point of increment. A real convergence is possible only when the amount of the absolute growth of GDP per capita in Bulgaria is equal or larger than the same indicator in the advanced countries. One needs many years of accumulation of human, intellectual, physical, institutional and other potential. If we have overcome them by rates of GDP growth over the recent years 2.0-2.5 times, in terms of the absolute amount of the annual GDP per capita increment we are lagging behind them several times.

This growth is subject to numerous internal and external factors for the catching up and advanced countries. The catching up development takes into account much more complicated sets of factors, than accelerated development. For this reason the latter is easier to forecast and programme, but the formulated strategic objectives are of more limited value than those for catching up development.

The concept for catching up development possesses instruments for relatively reliable assessment of the time needed for converging of the catching up country (Bulgaria) and the more advanced group of countries (EU) if the past and expected speeds of alteration of the indicators in both sides are defined reliably. To this end I use the notion "step of catching up"⁴, which is 1.5 percentage points on per capita GDP as an average per year for 2001-2007 in Bulgaria. With the same step of catching up we need 40 years from now onwards to converge with the EU on this indicator. If the future growth rates in the Community prove to be higher, while ours remain the same or decelerate during the following decades this term may be extended. And vice versa.

One may ask – how reliable is the above average annual step of catching up of 1.5 percentage points on this indicator? Is it high or low, achievable or not? A comparative analysis with the experience of other countries in similar to our situation may help to answer this question (see the Table).

⁴ The step of catching up (conversion) measures the intensity of catching up of the more advanced country by the less developed country on economic or other indicators. In technical sense here under step of catching up one understands an average annual reduction of the lagging behind in percentage points between the two sides on a specific indicator – GDP per capita, labour productivity, average income, etc.

Table

Computation of the step of catching up the EU by some member countries on GDP per capita

Countries	% of the average for the EEC in the year of accession	% of the average for EU in 2007	Years as EU member	Increase in the share in percentage points to EU-27 during membership	Average annual step of catching up in percentage points from accession to 2007
Ireland	50 (1973 г.)	146.2	34	96.2	2.83
Greece	62 (1981 г.)	98.4	26	36.4	1.40
Portugal	55 (1986 г.)	73.9	21	18.9	0.90
Spain	68 (1986 г.)	104.5	21	36.5	1.74

Source. Computed on data from Eurostat.

The highest is the catching up step in Ireland, and the lowest in Portugal. Bulgaria can not achieve the Irish rate of catching up for obvious reasons, elaborated in other publications of mine (See publications N 25, 43, 71 on my web site). We should however not go as low as the Portuguese rate of catching up. Taking into account that Bulgarian economic, political, geographic, climatic, psychological and other conditions are very close to those of Greece, and that we have some important resemblances with Spain, one could assume that Bulgaria should aim at the catching up rate of 1.50 percentage points an average per annum over the following decades.

The Bulgarian level of labour productivity, compared to the EU average is the lowest among the member countries and even compared to the applicant countries. Far ahead of us are Turkey and Croatia. One may ask: when Bulgaria could reach the average EU level of labour productivity? This could also be computed through the catching up step, provided productivity in both Bulgaria and EU grow at the average annual rates of 2001-2007, namely 0.82 percentage points. In this case one needs 80 years for convergence with the EU average. This is not a good prospect for Bulgaria. Urgent measures are needed for faster growth of labour productivity and its contribution to the GDP growth over the following years.

This instrument could be used to signal in cases of lagging behind on certain indicators in order to take appropriate early measures.

According to our Strategy for catching up economic development of Bulgaria until 2020, published in 2003, the average annual growth rate of GDP for the first decade of this century should have been 9-10 per cent. One expected 5.5-6.0 per

cent prior to the current global crisis, which in spite of the relatively low growth rate of Western Europe over the last 10 years, does not secure the necessary catching up by Bulgaria. The ongoing global recession will make matters worse. Prior to the recession Bulgaria was utilising 55-60 per cent of its growth potential. Such type of growth was accelerated, but no catching up.

Priorities of Economic Development

The market fundamentalists believe in the omnipotence of the “invisible hand” and hate notions such as “strategy” or “priority”, because this is an “intervention” in the normal functioning of the market automatism. Even the best regulative intervention of the government, in their view, is worse than the least successful functioning of the economy, lead by the market forces. According to this logic the governments of all countries around the world, and particularly the USA, EU and other advanced countries should not have acted in the fall of 2008, waiting for the “invisible hand” to normalize the situation on the financial markets and prevent or mitigate the recession in the real sector⁵. The market fundamentalists are eagerly waiting for it to perform its role of economic and production structures formation, development of fundamental and applied research, and on this ground – the structural and technological modernization of the economy. And will not wait for it to come, because, as Joseph Stiglitz said in his Nobel Price Lecture of 8 December 2001 “The hand is invisible as it is non existent”.

⁵ The ongoing global financial and economic crisis is a consecutive proof that this is not true. Economic history over the recent 100 years knows a large number of cyclical crises and several depressions. In all those cases, however the solutions of the crises were found only through decisive government interventions, and not through the self-regulating power of the market. Even in the most advanced market economy – the USA, the administration of the President and the Congress abandoned the ideological dogmas of the liberalism and embarked on radical interventions on the financial sector to prevent a national catastrophe. In the absence of such an intervention the USA and the rest of the world would have sunk into deep depression with heavy economic and social consequences. This might have lead to global socio-economic catastrophe, affecting the life of hundreds of millions of human beings. It is not by accident what has been spoken in the USA, that the center of economic decision making had moved from New York to Washington, namely from Wall Street to Congress and President. Even more radical are the plans of the French President Nicolas Sarkozy. He insists in the radical reform of the present capitalism. As initiated by the British Prime Minister Gordon Brawn, the advanced countries have allocated hundreds of billions of US dollars for the purchase of public shares in the stable financial and other corporations. Giant banks with centuries old history, which withstood the Great Depression of the 1930s went bankrupt or were nationalized. The German minister of finance P. Steinbrück said in October 2008 that “The capitalism brought to its extreme goes to self-destruction”. The same happened to the totalitarian socialism.

“The main lesson from the present crisis is that successful socio-economic development is not possible in the absence of active government involvement. The future belongs to the regulated market economy, and not to the self-regulated market economy. Such economy does not exist”. *Angelov, I. - Duma*, 8 October 2008.

For much more on the subject of the global crisis and Bulgaria see *Angelov, I. The Global Economic Crisis and Bulgaria*. Sofia: Marin Drinov Publishing House of the Bulgarian Academy of Sciences, October 2009.

The market mechanism can and does affect the current adjustment of the existing sectoral patterns, but it does not possess a capacity to discern, forecast and define the type, the kind and the ways of developing of sectoral and sub-sectoral patterns, which will come to existence in 20-30 years or more. The private capital does not embark into modernization investments, which will deliver results in many years, or even brilliant short-time results, which will emerge outside the company, and could not be rewarded through price or other instruments. World economic history does not offer such examples. This can be done only by science, jointly with public and nongovernmental research institutions and R&D teams of the big corporations in the largest economies. Bulgaria is not among them.

Our respected researchers from the so called exact sciences – mathematics, physics, chemistry, electronics and others insist that the largest fundamental theoretical discoveries during the recent decades have been made in public research institutions of national academies and prestigious universities, or at least with large government financing of private research institutions. The market automatism does not affect this type of fundamental research, determining to a very high extent the economic priorities and patterns and nurturing the R&D in strategic horizons. The market fundamentalism suppresses fundamental research, as it does not deliver immediate visible products. In the absence of fundamental research there are no R&D and innovation activities.

Some strategic studies in Bulgaria recommend national priorities for economic development. Bulgarian governmental institutions however do not have such national priorities.

In the above mentioned our Strategy for catching up economic development of Bulgaria till 2020, Chapter 11. deals with economic aspects of structural policy in a strategic horizon (pp. 277-278). The trends in the evolution of the patterns of production and consumption and the ensuing priorities are identified. The contours of the sectoral, sub-sectoral and product patterns are outlined in the industry, services, the regional dimensions of economic activity and the restructuring through company emerging and fading away till 2010 and 2020. My impression is that Bulgarian policy makers are not acquainted with our recommendations even though our studies were dispatched to the government institutions in due time.

There are no abstract priorities. One can speak about priorities only from a specific point of view, with specific criterion for achieving a desired strategic objective. With this starting position there could be the following priorities in the development of the Bulgarian economy till 2020 and beyond:

- According to the type of high-technologies: information and communication technologies, bio-technologies, nano-technologies, environment friendly and energy saving technologies, technologies for development of new materials and new sources of energy;

- According to the level of economic and social efficiency: development of low material, low energy and low capital intensive products, products with high skilled labour content, with high productivity and competitiveness, efficient macro-

and micro-economic management, development of modern social market economy, upgrading the quality of life;

- According to areas of activities: development of modern healthcare and education system, modern science and powerful innovation system, complex infrastructure, technological and structural modernization of services, industry and agriculture, energy saving development of production and household sectors, expanded utilization of renewable energy sources, environment protection;

- According to consumption: high quality of consumption, dematerialization of consumption, knowledge based consumption, more rational consumption for the elderly, personification of products and services, sustainable consumption.

Widely shared is the view that priorities should not be numerous. When they are too many there are no priorities, as everything is a priority. This is right. At the same time, in the real economic policy national efforts can hardly be focused on two-three or four priorities and the rest be abandoned. This is equally valid for research, particularly for fundamental one in the average in size or large countries. This calls for compromises between the two views, combined with setting priorities of first, second and third rank, taking into account the nature of the input-output linkages.

Strategic Economic Objectives of Bulgaria till 2020

Each strategy comprises objectives, priorities and means for their attainment. I will confine myself to economic and some closely related social objectives.

As stated already Bulgaria has no official strategic objectives. Those which follow were recommended in our above mentioned Strategy for catching up economic development till 2020⁶.

The fundamental socio-economic objective of Bulgaria is improving the quality of life of the people through modernization of the economic and social system, setting up the foundations of the information society and accelerated integration into the EU.

Bulgaria needs information society and European integration which serve in a balanced manner the interests of all social, ethnic and professional groups of the population. The government must be equally mindful with regard to labour and capital. There is no chance for successful development of a country which allows contrasts and severe conflicts between these two groups of interests. Their collaboration and balanced treatment by the government is of fundamental importance for the socio-economic development of our country over the following decades.

Bulgaria has suffered a lot in the past of primitive "class" policy, inciting one group against the other, instead of making them constructive social partners. The

⁶ See the Economy of Bulgaria and the European Union. Strategy for Catching up Economic Development till 2020..., pp. 77-131; The Economy of Bulgaria and the European Union. Catching up Economic Development – Strategy and Realities..., pp.13-187. The full texts can be found on the above stated web site, publications 43 and 71.

different, often conflicting interests of the two groups must be matched through reasonable mutual compromises, instead of confronting them under the flag of the “class struggle”. All conflicting interests can be solved through mutual compromises if there is a good will. History has proven that the barricades are not the best means for solving conflicting interests. They generate more problems, than those they solve.

Public institutions must play the role of important arbiter in looking for fair compromise solutions. Each forceful “victory” in the conflicts between labour and capital is a Pyrrhic victory and the society pays a high price for many years. This has been confirmed both by our and world experience.⁷ At the beginning of the 21st Century it is high time to learn this suffered historic lesson.

The Bulgarian society should set up the following major economic objectives till 2020:

- *Increasing the real disposable income* of the people up to 50-55 per cent of the EU average by 2020, and up to 75-80 per cent till 2050-2060, having in mind that it is expected to grow by 2.5 per cent average annual in the Community. This is an ambitious target. It is on the border line between possible and impossible, but it is feasible at maximum mobilization of the national energy.⁸

- *An Employment Rate of 70-72 per cent* till 2020, coupled with substantial increase in the share of employed above 55 years of age, as well as employment of women of all age groups. A significant increase in the mobility of the labour force and of the employment rate and wider application of flexible working time and forms of employment. Unemployment should be reduced to 3-4 per cent.

- *Fair distribution and relative social homogeneity.* The ongoing accelerated complex polarization must be put under restraint. This means simultaneous limitation of income and real estate polarization, of unequal access to health services and education, of digital, regional and socio-ethnic polarization. The growing complex polarization is charged with a potential of instability and socio-ethnic conflicts. Urgent measures are needed for their gradual solution, as under such polarization successful catching up development is not possible over the coming decades. The experience of the advanced countries teaches that high quality of life is achievable only under moderate social diversification. These are the countries with civilized social market economies which should be the goal of Bulgaria over the coming decades.

- *Universal access to high quality healthcare.*⁹ One needs total health insurance; universal access to general practitioner, to a specialist physician, to hospital medication, to efficient medicines. Children mortality to be brought down to

⁷ A good example of this is the heated discussion in the American society in September-October 2008, while developing the package of \$700 billion for financial stabilization. The famous conflict emerged between Wall Street and Main Street, which the US Congress tried to settle.

⁸ For more details see Strategy for Catching up Economic Development..., pp. 91-94.

⁹ For more details see Catching up Economic Development – Strategy and Realities..., pp. 219-237.

6-7 per cent. To provide sufficient financing, substantial improvement of the quality of medical services; combination of public and private healthcare with domination of the former. To apply the principle "health is not a commodity". The quality of performance of the healthcare institutions to be assessed according to the health of the people, and not by financial indicators as it is done now.

- *Universal access to high quality education.*¹⁰ To apply the principle, that development of education is inherent fundamental function of the government which can not be performed by the private sector alone. Achievement of universal 12 years education by 2020-2025; to do away with illiteracy; introduction and expansion of life-long education and other modern forms of education. Comprehensive modernization of the teaching programmes in line with the European standards, combined with retention of national virtues; upgrading the role and status of the teacher as a central figure in the education process. Radical improvement of the teaching techniques, including computerization of education; upgrading the quality of primary and medium level education; forceful action (if needed) for full coverage of the children of the roman population by the educational system. Upgrading the skill and substantial improvement of the remuneration of the teachers in the secondary schools and of the university professors; retaining the free of charge medium education and only limited payment in the public higher schools. The state must provide the prevailing portion of the financing for the latter. Curtailing the number of the higher schools, improvement of the quality of education they provide, as well as expansion of their research activities. Improvement of working relations among universities, research institutes of the Bulgarian Academy of Sciences, the Agricultural Academy and other research institutions. Pupils and students should not only "receive", but also "create" knowledge. To adopt the new methods of teaching as "face to face" and "equal with equal". Bulgarian education must be transformed into an institution for long-lasting knowledge, which does not outdate soon. The young people should be trained to run their life in a constantly changing society. More and more exchanges of pupils and students should take place between Bulgarian schools and universities and their counterparts from abroad. The performance of schools and universities should be evaluated in accordance with quality of education and skills of the pupils and students, and not by financial indicators, as it is done now. To combine public and private schools and universities, keeping the priority of the former. To establish modern system for constant upgrading and refreshment of the skills of all categories of working people.

- *Healthy environment.*¹¹ This comprises: reduction of the harmful emissions by 20 per cent in line with the recommendations of the European Commission and other international commitments of Bulgaria; broader utilization of renewable and

¹⁰ For more details see Strategy for Catching up Economic Development..., pp. 94-99.

¹¹ For more details see Ibidem, pp. 125-130, 332-340.

other modern sources of energy; clean waters, air and soils; more rational utilization of transport services for the production of a unit of GDP; reduction of traffic jams and air contamination in the large cities; curtailment of the intra-city and connecting cities, small towns and villages transport with traditional internal-combustion engines and their replacement with environment friendly engines; installing of modern purification equipment in all termopower electric stations, cement, chemical and other plants with high coefficient of purification; solving the problem of collection, classification and modern cultivation of the fossil household wastes, particularly in the large cities; strict implementation of the principle “the polluter pays”; expansion of the protected territories.

- *Normal healthy house for every citizen.* Larger living floorage per a family member as well as of the apartment houses with ferroconcrete; universal thermal and sound insulation; universal modernization of the design of the houses with built in appliances, apparatuses and other facilities; assistance to young families and particularly those with two-three children to acquire a home; independent home for each family; construction of settlements-satellites of the large cities; conversion of abandoned villages into modern holiday zones and by doing so overcome partially the depopulation of entire regions.

- *Healthy pattern of consumption:* increasing the share of high quality food products in the menu of the Bulgarian family; reduction of the share of expenditures for food and nonalcoholic drinks in family budgets to 20-22 per cent (37.5 per cent now); ensuring environmentally friendly consumption; gradual personification of consumption; growing dematerialization of consumption; increasing the share of expenditures for healthcare, education and recreation in family budgets.

- *High computer and internet literacy:* development of high quality infrastructure to cover the entire territory with broadband internet, accessible for all schools; 80-90 per cent households access to internet; high computerization of all government administrative services; expansion of electronic trade and so on; massive utilization of multimedia and mobile telephony, including for internet.

- *To have first indications for mitigation of the demographic crisis*¹² till 2025-2030. To have the crisis under control is impossible, but its mitigation is feasible, although very difficult. This calls for further increase of natality - which is now 9.8 per one thousand and reduction of mortality – now 14.8 per one thousand. The large margin between the two figures speaks for high negative natural growth rate which leads to quick decline in the population. This may go on until 2035-2040 and beyond if the birth rate does not go up and mortality – down. During the recent years natality grows, but mortality remains high and there is no sufficient conversion between the two processes. More efficient encouraging measures are needed for increasing the birth rate, assisting the mothers and young families, providing crèches and kindergartens for all willing families at minimal fees. The

¹² For more details see Strategy for Catching up Economic Development..., pp. 100-104.

prevailing portion of the costs for them should be borne by the state. The average life expectancy should be extended by 3-4 years till 2030. Substantial reduction of children mortality is needed which is now twice as high as in the advanced countries. The quality of the ethnic structure of the population must be upgraded by increasing the birth rate in the Bulgarian ethnic groups and its limitation within reasonable borders in the roman ethnic group, coupled with forceful improvement of the education and the professional skills of the adult roman population. If needed with the implementation of financial sanctions.

- *Reduction of the emigration and increasing the rate of returning of Bulgarians working abroad* by improving the living and working conditions in Bulgaria. Attraction of people from Bulgarian communities who live outside Bulgaria – in Macedonia, Serbia, Moldova, Ukraine and others. Attraction of skilled personnel from other countries and limitation to the minimum of the inflow of unskilled immigrants. The Bulgarian society should be prepared to live together with immigrants from other countries during the following years and decades. Irrespective of all limitations to foreign immigrants, this is an inevitable process under demographic crisis and conditions of globalization.

- *Reduction of crime and corruption.* The personal and property security of the people must be guaranteed, as well as protection from corruption encroachment. This security is a component of the higher quality of life which must be an objective for our society. To this end the efficiency of the legal system must be increased. For the time being this is the least reformed and the least efficient sector of the public administration, despite the pressure from the EU. Apparently, there is no political will so far for such reforms.

Means for Achieving the Socio-economic Objectives

Generally speaking, this could be attained by an appropriate economic policy,¹³ laying down the foundations of the knowledge economy, combined with humanization of the social system and accelerated integration into the EU. The achievement of the above listed humanistic objectives is not possible under the present conditions of growing social polarization in the society. Additional aggravating factor is the strongly undermined state hood over the last 15-20 years and the well organized crime which has penetrated in some cases vital public institutions.

The accelerated complex integration of Bulgaria into the EU is of fundamental importance for the successful socio-economic development until 2020 and beyond. In the absence of such integration not a single one of the above mentioned strategic objectives could be achieved. However, if we strike a balance of the past three years since accession, there is no ground for optimism. The political statements that it was successful are rather a courtesy. For the time being Bulgaria is not integrating itself successfully into the Community. A large

¹³ See my articles on economic policy in the footnotes at the beginning. On this subject there are a number of publications by other authors which can not be listed here.

portion of the pre-accession funds have not been utilized and with the expiry of the deadline they will be lost. The same is likely to happen to the structural and other funds. Our companies do not win auctions of the European Commission for implementation of projects and in the best cases participate as subcontractors with all negative consequences. The intrasectoral and product level production specialization and cooperation between Bulgarian and West European firms is weak. From formal point of view our legislation is aligned with the EU legislation, but the implementation is poor.

After accession the expectations for European incomes have increased, but this is possible only with European production, productivity, quality and civilized social relations. This means:

- *Intensive and high quality growth of GDP* which should exceeded 2.5-3.5 times the EU average and possess the features of a sustainable growth, comprising economic, social and environmental characteristics. GDP per capita in Bulgaria should reach 50-55 per cent of the EU average by 2020, assuming 2.5 per cent average annual growth in the most advanced member countries during this period. Towards 2050-2060 we could attain 75-80 per cent of the EU average. Spain is already slightly above the EU average with 6.6 percentage points, Greece is approaching it closely with 97.1 per cent and Portugal achieved 74.6 per cent. So, even at the middle of the Century the GDP per capita in Bulgaria will be lagging significantly behind the present level of this indicator in Spain, Greece and will converge with Portugal.

- This requires *high saving rate – 30-31 per cent and investment rate – 33-35 per cent with very high efficiency* which is not easy at all for such a long period. This calls for full mobilization of the domestic resources, complete utilization of all Euro funds as well as other resources from international financial markets. The direct impact and the dark shadow of the current global crisis will be felt during the following years and will make more difficult the maintenance of high saving and investment rates due to the outflow of foreign capital from unsafe countries such as ours. This delay should be compensated with even higher saving and investment rates during the post crisis years.

- Bulgaria should aim at *better composition of the foreign direct investment (FDI)*. Much higher portion of them must be allocated for high-technologies in the manufacturing, construction, transport and some modern branches of the services sector. During the recent years around 50 per cent of FDI inflow was for purchase of real estates, financial intermediation, delivery of automobiles and their servicing and others which do not contribute much, if anything at all to our economic development and especially new technologies. Generation of more exports with larger value added, higher competitiveness.

- So far Bulgaria failed to attract large modern plants of leading Western corporations with their R&D facilities. The efforts to attract such plants should continue, combined with *fast development of specialized subcontracting activities for production of high-technology components of complex products* produced by

the large Western European and other corporations. One should promote intra-product international specialization and production cooperation. Here too the ongoing global crisis will exert a negative impact over the following years.

- *Increasing productivity of labour.* In the composition of the sources of growth the higher productivity of labour should generate the prevailing portion of GDP growth. One needs average annual increase of 4.5-5.0 per cent, achieving around 50 per cent of the EU average until 2020 and 75-80 per cent by 2050-2060. The increase in labour productivity should contribute to 60-65 per cent of the average annual growth of GDP until 2020 and later on – up to 70-75 per cent. Due to the limited resources of man power labour productivity should become the major and during some years – the only source for economic growth over the following years and decades.

- *Increasing the competitiveness of the economy.* In this case especially important is the export competitiveness and of the other foreign economic activities. It is reflected in the shape of the foreign trade balance and particularly in the current account. It is of key importance under conditions of global crisis as the current one. Such crises are very likely during the following decades as well. From the situation on the current account one can judge for the health of the economy. Over the recent 10 years the deficit in the current account has been growing constantly and has reached 25 per cent of the GDP in 2008. During the crisis in 2009 it is below 10 per cent. However with the recovery of the economy the growth of imports will certainly surpass by far the increase of exports and in 2011 and beyond the current account deficit will be again in the two digit zone. An objective of our long-term economic policy should be a reduction of the trade deficit by 2015 to 18-20 per cent of GDP and by 2020-2025 to 8-10 per cent. The deficit in the current account should be reduced by 2015 to 15-17 per cent and by 2020-2025 to 6-8 per cent.

- *Reduction of the energy and material intensity of production.* Our present energy intensity of GDP is 3-4 times higher than the one in the advanced countries. There is a very close, nearly functional relationship between the growth of output and the consumed resources – energy, materials, labour, and capital and the related pollution of air, waters and soil. In the economic literature on sustainable development one often refers to “decoupling”. This calls for huge efforts and many years, particularly in the field of technologies, man power skills, management etc.

- During the following decades the bulk (80-85 per cent) of the energy investments should be allocated for *energy saving development* through structural and technological modernization of the production and household sectors, and only 10-15 per cent for new energy generating capacities. Had the energy saving development been initiated 10-15 years earlier the construction of the Belene nuclear power plant would not have been necessary now. It has been proven long ago that energy saving investment is 2-3 times more efficient than those for new energy generating capacities. Within this context *a revision is needed of the*

concept “Bulgaria – energy center on the Balkans”, understood as generation of more energy for export to the neighbouring countries. One should first prove which export is more advantageous for Bulgaria – of electric energy or of high-tech and medium-tech products, produced with the same amount of investment. Preliminary assessments are in favour of the latter. In addition one should bear in mind that simply crossing the territory of our country by tubes for transit of crude oil and natural gas does not make us energy center of the Balkans. What matters is what a country produces and not what it transits.

- *Mass utilization of high-technologies* – ITC, bio-technologies, nano-technologies, environment friendly technologies, technologies for new sources of energy, for new materials, etc. The new technologies contain enormous capacity for future economic growth¹⁴. Development is impossible in their absence. Expansion and drastic improvement of the quality of education on most promising directions of new technologies is also indispensable. An expansion and total modernization of the facilities for applied research and innovation activities in the new technologies are also urgently needed.

- *Accelerated development of healthcare and education*. They are examined here as production factors and not as major goals of each modern society. The formation of modern human and intellectual capital is secured through up to date healthcare and education. In their absence economic and social progress is unthinkable over the following decades. The modern human and intellectual capital and the high-technologies are the keys towards catching up economic and social development for a country like Bulgaria, poor on other production factors.

- *Modernization of the production patterns* (sectoral, sub-sectoral and products). For sectoral patterns one has in mind the composition: agriculture – industry – services. Agriculture generates now 9 per cent of the gross value added in Bulgaria; industry – 31 per cent and services – 60 per cent. There are of course fluctuations from year to year. Towards 2020 agriculture is expected to decline to 3-4 per cent, industry – to 26-27 per cent, services will reach 70-72 per cent. The structural patterns of industry will evolve towards high-tech manufacturing branches at the expense of traditional and mining activities. The structural adjustments at product level are expected to be most active. The share of products with low energy-, material-, and capital-intensity and with high content of skilled labour will grow, and the share of the traditional ones will decline.

- The quick development of the production and exports of *environment friendly agricultural products* is a prospective niche for Bulgaria due to the lesser damage of the soils with chemical fertilizers and pesticides. This is one of the areas backwardness (smaller utilization of chemical products in agriculture in the past), compared to Western Europe now turns into an advantage. With growing incomes of the population and increasing ecological awareness the demand for

¹⁴ One deals here with new technologies only as means for achieving the goals and not as an objective of alleviation and enriching the life of the people, as it is in section five of the article.

environment friendly products is expected to be much higher during the following years and decades. The prospects for exports of environment friendly products to Europe and other countries are good.

- *Accelerated development of complex infrastructure:* transport, technical, environmental, energy, water collection, distribution and supply, social, telecommunications and others. Without modern infrastructure no economic development is possible and much less – catching up development. The future infrastructure should serve both the domestic Bulgarian development and the regional and interregional cooperation, benefiting from the strategic geographic location of Bulgaria – a crossroad of important communications from West to East and from North to South.

- *Speedy development of science and the innovation system.* Priorities for fundamental research should be defined for faster development by Bulgaria in the future. The facilities for applied research and R&D, destroyed 15-20 years ago should be restored at a modern level. The gross domestic R&D expenditures should reach at least 3.0 per cent of the GDP until 2020, with 1.85 per cent in the EU at present and 0.40 in Bulgaria. Well developed innovation system is indispensable for successful adoption, dissemination and utilization of our own and imported technical, institutional and other novelties. Cooperation between research institutes, universities, innovation system and industry should be improved. Quick development of patent activities and increase in registered patents in the European and American patent offices. Bulgaria is very much lagging behind in this area.

- *Improving the performance and the quality of management at micro level.* According to assessments of the World Economic Forum in its 2009-2010 global competitiveness report on the various aspects of performance and quality of management at company level Bulgarian firms occupy places between 100 and 125 from among 137 covered countries by the survey. One probably needs a quick initiative of the government to elaborate a programme for education of new managerial personnel at company level and upgrading the skills of the available managers. Without improving the management at micro level it is impossible to upgrade national productivity and competitiveness.

- *Deeper integration into the European Common Market.* The intra-community exports of Bulgaria may reach 70-72 per cent of the total exports and stabilize there. At present we export per capita 4-5 times less than Hungary, Czech Republic and Slovenia. Towards 2020 we should at least achieve their present level and exceed it. The intra-branch and intra-product exchanges will expand through enlargement of the intra-product cooperation for production of high-tech products by international cooperative alliances and sub-contractors. We may set a target to achieve 10-12 per cent exports of high-tech products from total exports by 2020. At this stage we export the meagre 3.34 per cent high-tech products from our total exports, while the average for the EU is 16.65 per cent. The high-tech and the medium-tech products should achieve 60-65 per cent of our total exports in 2020, what is the present figure in Hungary, but under different product pattern.

The export of raw materials is above 50 per cent from our total non-energy export. This should be reduced to 25-30 per cent.

- *Strengthening internal and external mobility.* Many people will leave Bulgaria temporarily over the coming years, but more and more will be returning with higher skills and enriched working and living habits. The internal working migration will also be increasing. With the improvement of the overall economic situation in the country over the following years one may expect growing flow of people back from towns to villages with better living conditions. All that will facilitate economic development.

- Creating economic conditions for *returning of some of the Bulgarians temporarily working and living abroad.* This will expand the quantity and improve the quality of the man power. The replenishment of the needed additional man power in the future should also come through better utilization of the working age population and forceful (using economic stimulus and sanctions) upgrading of its skill (especially for the roman population), from the Bulgarian communities abroad and only in the very last resort – import of skilled personnel from other countries. The forceful action of the government for better coverage of the roman children in the education system and large scale training of the adult roman population in short-term training courses for professional skills will be cheaper and more expedient than import of low skilled workers from Asian and African countries.

- *Much higher expediency of the administration:* curtailment of the number of the administration, increasing the skills and expediency, reduction of the pliability to corruption through better remuneration. The weak administrative potential is a major reason for the poor utilization of the Euro funds. It goes without saying that better utilization of the structural and other funds from the EU will be important factor for the development of Bulgaria over the coming years and decades

- *Reduction of crime and corruption.* Unless there is sharp improvement in the performance of the jurisdiction and especially in the court system, the achievement of the above listed strategic objectives will be unthinkable.

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