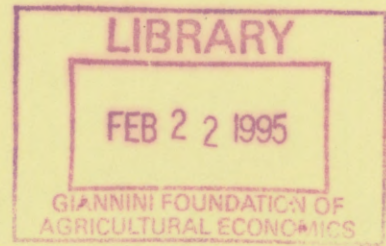


~~Bulgaria Economic adjustment~~
ILO

OP24

INTERDEPARTMENTAL PROJECT
ON STRUCTURAL ADJUSTMENT

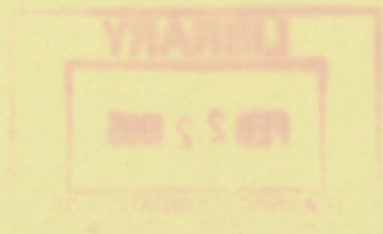


Occasional Paper 24

C. Rock

**Employment and privatization
in Bulgaria's reform**





Interdepartmental Project on Structural Adjustment

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

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

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

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

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

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

Employment and privatization in Bulgaria's reform

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1. Historical background, 1944 - 1990 ¹

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

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

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

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

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

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