

Université de Montréal

Social consequences of the privatization in Bulgaria and socio-economic impact of the neo-liberal economic theory on the transition to free market and democracy in the period from 1989 to 2015

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RÉSUMÉ

Objectifs :

Le mémoire examine la privatisation en Bulgarie à partir d'une certaine distance historique de 25 ans, pour démontrer les conséquences sociales présentement visibles, entre autres les inégalités sociales par rapport au développement économique; l'impact démographique aussi que les nouvelles structures et valeurs sociales.

Méthode:

Nous utilisons une approche à deux volets. Pour le développement socio-économique, nous étudions six variables constantes pour la période, telles que le nombre de personnes en dessous du seuil de pauvreté, le PIB, l'indice Gini, les dynamiques démographiques, le taux de chômage et l'indice de développement humain; Pour les changements sociaux, les nouvelles structures et les valeurs, nous utiliserons une approche qualitative, basée sur des entrevues, des questionnaires, des études de terrain, etc.

Résultats:

Nous constatons que les résultats obtenus par les deux méthodes, ceci comprenant leurs limitations, correspondent plutôt à notre hypothèse : la privatisation en Bulgarie était économiquement nécessaire, mais socialement destructive et a entraîné des conséquences sociales dévastatrices à long terme, principalement en raison des politiques et des pratiques de privatisation défectueuses. La privatisation a émergé de la théorie néo-libérale économique prédominant à l'époque. Les pratiques spécifiques utilisées dans la privatisation Bulgare ont favorisé principalement à court terme certains petits groupes sociaux, mais pas la société dans son ensemble.

Conclusion:

Nous constatons que la façon dont la privatisation bulgare a été menée a été socialement et économiquement nuisible avec des conséquences continues. À long terme, l'économie s'est rétablie, mais les divergences sociales ont toujours une tendance à croître.

Mots clés : privatisation; inégalités sociales; développement socio-économique; théorie neo-libérale, valeurs sociales.

ABSTRACT

Objectives :

We look at the privatization in Bulgaria as defined above from a certain historical distance of 25 years, trying to follow the visible now social consequences of the privatization, such as social inequality vs economic development; demographic impact and new social structures and values.

Method:

We use a two-prong approach. For the socio-economic development we study six constant variables for the defined period such as number of people below poverty line, GDP, Gini Index, demographic dynamics, employment rate, and Human development index; for the social changes, new structures and values we use a qualitative approach, based on interviews, questionnaires, field studies, etc.

Results:

We find that results by both methods, with all the limitations they have, rather align with our hypothesis that privatization in Bulgaria was economically necessary, but socially destructive and led to devastating social consequences, mainly as a result of flawed privatization policies and practices. It did emerge from the predominant at that time neo-liberal economic view and the specific practices used in the Bulgarian privatization favoured mainly in short term for some small social groups but for the society as a whole.

Conclusion:

We find that the way Bulgarian privatization was conducted was socially and economically damaging with long lasting consequences. In the long run the economy has recovered, however the social divergences tend to grow.

Key words: privatisation; social inequality; socio-economic development; neo-liberal theory, social values

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I. Introduction

The transformation towards free economy, democracy and the rule of law in the former USSR, Eastern and Central Europe is, without a doubt, one of the great events of the 20th century, easily comparable to both World Wars in geopolitical and socio-economic aspects. In the “Age of extremes”, Eric Hobsbawm states: “Socialist countries, with their now flagging and vulnerable economies, were driven towards equally or more radical breaks with their past, and, as we know, towards breakdown. That breakdown can stand as the marker of the end of the 20th century, as the First World War can stand as a marker towards its beginning”¹

As the late Tzvetan Todorov puts it: “ Vingt ans plus tard, je pense toujours que l'événement politique majeur de l'histoire du XXe siècle est l'instauration, le renforcement, puis l'effondrement des régimes communistes. Je n'éprouve toujours aucun regret face à cette disparition. Je dois en même temps admettre que je n'avais pas imaginé toutes ses conséquences et que certaines d'entre elles ne sont pas vraiment positives. Pour y voir plus clair, il faut entrer un peu dans le détails “².

¹ **The Age of Extremes: The Short Twentieth Century, 1914–1991**; ISBN 978-0-679-73005-7 USA; ISBN 0-349-10671-1, UK 1994, p 10.

² **La chute du communisme inaugure une troisième phase de messianisme politique...**Entretien avec Tzvetan Todorov , p. 1, Grande Europe n° 37, 2011 - La Documentation française © DILA

The mere scope of this event in terms of geographical area, the importance of the populations involved, the scale of the reforms applied and, lastly, social consequences in the countries involved is quite unprecedented. Now, more than 25 years after the beginning of this transition process (TP), we have some historical, more scientific and less politically biased perspective giving us a better understanding of what exactly has happened in this part of the world.

We will not study all aspects of this transition – a general theory of the phenomenon is a challenge for most researchers and still requires a comprehensive and holistic explanation of the phenomenon.” The collapse of the Soviet Union presented social scientists with a daunting set of challenges. For half a century, comparativists in the fields of political science, sociology, and development economics had sought to develop theories capable of explaining transitions from tradition to modernity, underdevelopment to development, and from authoritarianism to democracy. The question naturally arose as to whether these theories of change could form the basis for a theory of post-communist transition or whether a transition away from state socialism required a fundamentally new and unique theoretical approach. ³ This has led to the emergence of transitology, as the study of the process of change from one political regime to another: “Since the early 1990s, American scholars of post-communist Russia have enthusiastically embraced a new guiding concept. Sometimes known as “transitology,” it should be called “transitionology” in order to underline all its assumptions and implications...” Transitionology has become a near-orthodoxy—

³ Jordan Gans Morse, *Post-Soviet Affairs*, 2004, 20, 4, p. 320. Copyright © 2004 by V. H. Winston & Son, Inc.

as its proponents tell us, the “standard fare,” the prevailing “organizing theme,” the “way of posing questions”.⁴

We will limit ourselves geographically to one country – Bulgaria, and in terms of processes - to the social consequences of one major event of the transition process, namely the privatization.

The reasons for such limits are, as mentioned above, in the first place, the sheer scope of the event, as a detailed research or a comparative study of those events is far beyond the format of a memoir, and, secondly, the author had the chance to benefit from a better insight into the specific events in Bulgaria, being fluent in the local language, having access to local sources and studies, and also due to certain personal experience including face to face meetings with some of the major actors (mainly political and business figures) of the transition period in this particular time and country. Social changes, though they follow in time the political and economic changes, are the most relevant pointers with regards to the results and the success of the transition.

In this memoir, we will use Bulgaria as a case study for the better understanding of the processes of the transition in Central and Eastern Europe, and some comparison with the other countries involved is inevitable, particularly in terms of economic and statistical data. The privatization process⁵ is a major point in the transition process for

⁴Jordan Gans-Morse, *Post-Soviet Affairs*, 2004, 20, 4, p. 321,

⁵**“Privatization” is an umbrella term** covering several distinct types of transactions. Broadly speaking, it means the shift of some or all of the responsibility for a function from government to the private sector. The term has most commonly been applied to the divestiture, by sale or long-term lease, of a state-owned enterprise to private investors.

But another major form of privatization is the granting of a long-term franchise or concession under which the private sector finances, builds, and operates a major infrastructure project. A third type of privatization involves government selecting a private entity to deliver a public service that had previously been produced in-house by public employees. This form of privatization is increasingly called outsourcing. (Other forms of

many reasons – the principal two being that it is a massive change of property or redistribution of property, as the apothem of the new socio-economic capitalistic paradigm which Bulgaria (and the others countries like it) were trying to adopt; and secondly, this relatively short in time act of privatization has an extensive pre-history of societal, political and theoretical struggle and its social consequences are definitely very long term. Privatization is the focal point of the transition and one of the major factors, if not the major factor, determining its relative failure or success.

II. Starting point and definitions

In this study, we look at every economic action as a social action at the same time.⁶

Pure economic actions, as we think, do not exist, as they all take place within society: they are the expressions mostly of societal relations and needs and they have, inevitably, social consequences, and may be studied in conjunction.

„À la perspective d'une synthèse entre sociologie et science économique, nous voudrions dans cet article, qui se veut aussi programmatique, plaider non pas tant pour une opposition des savoirs sur l'économie que pour une différenciation de ces formes de connaissance, qu'il est possible d'opérer en approfondissant l'analyse sociologique de la connaissance économique. Ceci nécessite en effet de considérer

privatization, not discussed here, include service shedding, vouchers, and joint ventures.) **The concise Encyclopaedia of Economics, Robert W Pool Jr. 2nd edition.** NB. In the memoire we will be dealing exclusively with the first definition.

⁶ **Economic action (Wirtschaften).** The concept of economic action represents a basic unit in Weber's economic sociology, and is used to construct more complex structures of the economy. It is the equivalent, in other words, of Weber's concept of social action in his general sociology...An economic action is a form of social action, which means that the actors assigns a meaning to his or her (economic) behavior and also orients it to some other actor (or order)“**The Max Weber dictionary: Key words and central concepts “by Richard Swedberg, p . 67, Stanford University press ,2005, ISBN 0804750947.**

dans le même cadre d'analyse l'économie comme forme de connaissance et comme force sociale, car les transformations des économies et des sociétés sont marquées aussi par des ruptures de la connaissance économique savante. “⁷

We will use the following variables, continuous and in the period from the end of 1989 to 2015:

1. People living below the poverty line, where the poverty line is a minimum income level used as an official standard for determining the proportion of a population living in poverty.
2. Dynamics of the GDP – gross domestic product, GDP being the monetary value of a nation's goods and services produced within a nation's borders and within a period, such as a year.
3. Income inequality or Gini index: The Gini coefficient (sometimes expressed as a Gini ratio or a normalized Gini index) is a measure of statistical dispersion intended to represent the income distribution of a nation's residents, and is the most commonly used measure of inequality.
4. Employment rates defined as a measure of the extent to which available labour resources (labour force) is being utilized. They are calculated as the ratio of the **employed** to the working age population. The working age population refers to people aged 15 to 64.⁸

⁷ Paul Sabourin, **Les enjeux méthodologiques de la construction de l'économie comme forme sociale**. Anthropologie et Sociétés, vol. 13 no 3, 1989, pp. 99-118. Numéro intitulé : “Méthodologies et univers de recherche”. Québec : Département d'anthropologie, Université Laval.

⁸ OECD data/définition : Organisation for Economic Co-operation and Development
<https://data.oecd.org/emp/employment-rate.htm>

5. Human Development Index; (HDI) is a composite statistic of life expectancy, education, and income per capita indicators, which are used to rank countries into four tiers of human development.
6. Demographic development and emigration
7. We will use also a qualitative factor such as:
 - the influence of privatization on social values, based on available studies, published interviews and media.
 - The influences of privatization on the social structure, such as the emerging of new elites, new creative and entrepreneurial class, the new 'middle class' the self-employed and small business, the new poor, including the working poor.

III. Method

The method this thesis uses is pertinent to the subject and goals of the research in each part and relevant to the sources of information. This means that we use a different methodology to show the impact of privatization and post-privatization in the areas, directly related to the economy for measuring the socio-economic impact and we have a different approach when it comes to the changes in society and social values.

Namely, for the first part, the data is more quantifiable and measurable in terms of existing indexes and statistical data, most of which has international sources, like the UN. Therefore, in this section we will use the six variables mentioned above, all of them continuous variables, for the period of 1990 to 2015:

We match or superimpose the temporal development of those variables versus the chronology of the privatization and post- privatization periods in search of correlation and we also compare the results at the starting and final point of the process.

1. Defining the period, starting and final points

1.1.Starting point: The starting point does not raise many questions. There is a consensus even about the date – November the 10th 1989, when the socialist (communist, by other definitions) regime of Todor Zhivkov, state leader of Bulgaria for the preceding 30 year, was toppled, as a part of similar chain events in Eastern and Central Europe, and the process of transformation to free market economy, private ownership, and democracy, rule of law started. First, it started as a political process, followed by economic, social, cultural changes, including the privatization. We accept, and we reflect that understanding in the chapter on the chronology of the privatization, that this specific process started informally (and in many cases illegally, or in a gray zone) almost immediately.

1.2.Final point: Now, a great challenge is the definition of the final point and the ability to determine if the process has reached a final point at all. This concerns mainly the socio-economic consequences of the privatization. Privatization, without any doubt, is a major part of the transition period, not less important as the establishment of political pluralism and democracy. Formally, the privatization process in Bulgaria has a clear chronology and has not come to an end, as there are still huge state assets that are considered for privatization in 2017 and the following next years, for example, the state cargo railroads, the airport in the capital Sofia, the Bulgarian stock exchange, etc. The bulk of assets were transferred by 2004. The relation in time between the very process of privatization and its social consequences is much broader and

complicated, including the political, economic and social consequences. Here are some considerations on how we can establish a time frame for the object of our study. Some Bulgarian sociologists, like Andrey Raichev and Kancho Stoichev, whom we have cited several times in the thesis⁹ argue that the whole transition period ends with the finalizing of redistribution of the majority of state property into private hands, or with the formal end of the privatization process. For this group of researchers, the criterion is only the ownership, state or private and the ratio between the two. The end of privatization marks the end of the whole transition period started in October 1989 with political changes; and with the almost immediate start of privatization those two processes develop simultaneously, they intertwined and end concurrently around 2002-2004. We see this approach (though the authors probably would not agree) as an orthodox Marxist explanation of social change by examining the conflict between the productive forces with the existing relations of production, the latter being mainly the ownership over the means of production – and this conflict leading to a change of said ownership through revolution. In this sense, change of ownership is the immediate and required consequence of privatization, so this is the new revolution with a defined beginning and an end. Such an approach is coherent and logical; however, it seems very limited and narrow, particularly with regards to the long-term social consequences. Therefore, such an approach may not be useful in addressing our specific phenomenon, which we think, goes beyond the framework of Marxism. It is also worth mentioning that the resolution of this conflict in classical Marxism (productive forces- relations of production, i.e. ownership), leads inevitably to higher level of productivity for the society, while on the contrary, the privatization in Bulgaria led to deindustrialization and severe reduction in output in agriculture,

⁹ The book `` **What happened** `` , A. Raichev, K. Stoychev; 1989-2004 ISBN-10:9545288663 and other works

services, etc. Again, we think it is methodologically incorrect and too narrow to take the transfer of ownership as the formal act of privatization, as the only criterion for determining the time frame of the transition period or the social consequences of privatization itself.

The majority of sociologists and economists insist that the Bulgarian society, following the privatization process, is still under transition and experiencing the consequences of privatization. A good example of this argument could be the constant transformation and volatility of the political, economic and social landscape. The political parties which started the transition and effectively ran the privatization are withdrawing from the political scene in 2015-17, bearing the political cost. The latest parliamentary elections in March 2017 saw the remains of the UDF (Union of Democratic Forces) - the main neo-liberal, right-wing political coalition forged in 1989 in favor and effectively in charge of the privatization, completely disappear from Parliament, failing to win any seats. Some sociologists (for example, prof Ivo Hristov) read this a sign that the transition period may gradually come to an end with the appearance of new political parties, not directly related to the privatization and its political cost. The idea is that we will see this happen in the next couple of years, so we can conclude that the end of the time frame for the privatization consequences is quite near, but still, this is an open-ended process.

In the field of economics, a theory about the end of the privatization consequences was very neatly formulated by the famous Bulgarian political scientist Ivan Krystev in a discussion about the end of the transition, published in the political magazine “Razum”¹⁰ As far as the idea when does the economic transition end, the World Bank in its report about the first 10 years of the transition in Eastern Europe also tries to

¹⁰ **Issue 3/2003, page 7:** <http://www.razum.org/bg/zanas/48-bulgaria-i-krayat-na-paradigmata-na-prehoda.html> :

give a simple definition about the end of the (economic) transition. The definition is, in general terms, as follows: the transition has been finished when the success or failure of a given enterprise cannot be pre-determined based on the origin of the assets of this enterprise, on how it was privatized, whether it is an old or a new entity.

¹¹Finally, in the field of economics, we can state that the transition is over when the managing strategies determine who are the winners and who are the losers.” This would mean that the end of economic consequences of the privatization is near when the rational behavior of the economic agents and their management is predominant and not depending on the origin of their assets. This does not yet seem to be the case. The behavior and success of many private enterprises are based on natural monopolistic or oligopolistic position and many others are heavily dependent on government procurement and bidding, amidst allegations of heavy corruption. The former minister of Justice Mr Hristo Ivanov, who resigned from his position in the last cabinet as a sign of protest against corruption and lack of rule of law and judicial reform, states in the program of his party, March 2017: “The economy of Bulgaria at present relies on increasing external debt and streaming private companies towards using government funds and EU subsidies, instead of creating competitive services with high added value. This is not a sustainable (economic) model...” The magazine Economix.Bg, dated March 27, 2014, publishes several economic indexes based on Eurostat data, stating: “Bulgaria is last in the EU in productivity of labor, and is also among the last in using of material resources, in energy efficiency, and innovations.” Among the very few I positive indexes are the high share of business investments.¹² Judging by the presented data, the economic consequences of privatization have not yet been overcome, and thus the process is still ongoing.

¹¹ Ibid

¹² <http://economix.bg/zashto-balgarskata-ikonomika-e-neeefektivna-v-kartinki>;

Considering the social consequences of the privatization, and in a broader aspect, of the transition, we may go back to Ivan Krystev, as quoted above¹³ where he says something very interesting about the time frame of the social consequences: “ For me, however, the most important question is the third question and this is the sociological one – to what extent and when the society accepts, that the transition is over. This is a question that is not analytical in its character, as it raises the issue of how we use the transition. For some the transition will be over, for others it will not be. For some, this will be good news, for others – bad news. From this point of view, the end of the transition period comes, when the people concerned accept that they are living in a society completely different from the previous and that the expectations, which they have had at the beginning of the process are completely different from the expectations they have now. For me, this is largely a generational issue. From this, internal point of view, we will have people all the time saying that the transition begins now, or that the transition never happened, or that the transition is a failure.”

We have accepted a period 1989-2015, as the starting point does not raise any discussion, and 2015 is the rather logical final point taking into consideration that:

a/ We have a significant time period, spanning 25 years from the end of 1989 till 2015, i.e. from the beginning of the privatization, and this gives us a more objective, result-based and more scientific perspective on the process; A certain number of different studies and statistical data has also been accumulated;

b/ the privatization formally is still an ongoing process, but the bulk of it was carried out by 2004-2005; and though there are still today assets on the table (airports, railroads, stock exchange, etc.). The privatization of these assets will not be on the same scale or have comparable economic and social impact; the privatization process

¹³ Ibid

after the fall of communism is unique not only from legal, economic, political point of view but first and foremost by the massive scale and depth of the created social impact;

c/ The overall impact of the consequences, and in particular, the social consequences of privatization are still shaping to a great extent the contemporary Bulgarian society, this is still an open-ended process. However, this process may be slowing down and losing momentum in its short term and subjective consequences, as this is also a generational issue, which develops with the period 1989-2015. People starting their career at the age of 25 in 1989 are 50+ years of age in 2015 and start looking at retirement. The long-term consequences, however, in the countries demographics, new social structure, social values and other social facts, which occurred in this period may have multiplying effects for decades to come.

2. Defining the variables, criteria of choice; the meaning of the variables for the overall picture and limitations.

2.1. Defining the variables, criteria of choice for the variables.

As we are dealing with a substantial period of time, it is obvious we would like to find variables that cover the whole period so that we can compare:

- The difference in values between the starting and the final point;
- The possible connection with the privatization process and results to this starting and final point, or the absence of such connection;
- The dynamics of the changes during the period of time and, most of all, the correlation (or the lack of) with the different stages of the privatization and post-privatization process.

If we apply such criteria, the best choice will be if we can find “continuous variables, or variables considered as continuous, such as the natural variables of income, age,

floor area in a house, number of rooms in a house, years of employment in a firm; or such conceptual variables as intelligence quotient, degree of economic development of a country, or the constructed variables of the percent in a given area voting for a candidate, or the size of a city”¹⁴

The same is true for complex continuous variables, such as the Human Development Index (HDI).

The choice of the six continuous variables mentioned at the beginning of the chapter (1. A number of people below the poverty line; 2. The Gini index; 3. Dynamics of GDP per capita; 4. Unemployment rates for the period; 5. Human development index (HDI) 6. Demographic dynamics during the transition) has been made with regards to their usefulness in explaining different aspects of the phenomenon of privatization and its impact on society. We give a brief description of each of the variables used in each relevant part of the chapters, so we will not repeat it here. However, it is worth mentioning that the variables have been chosen with the aim to answer two main questions:

A. Have the privatization and post-privatization processes stimulated (or not) the overall economic and social development of the country?

B. Have the privatization and the post-privatization processes created a negative or positive social impact and cost?

The idea is to attribute different aspects of the phenomenon to each variable. It would have been ideal if the variables were not closely correlated, however, as they center basically on the same phenomenon, this is not the case. For instance, the relationship between GDP and the Gini index has been studied by different authors as an indication of socio-economic development, for example in the work of Constanza

¹⁴ **Constructing social theories**, Arthur L. Stinchcombe, p 30, University of California, Berkeley, Library of Congress Catalog 68-27168.

Naguib,¹⁵ “the relationship between inequality and economic growth (GDP and Gini index).” The results obtained by previous empirical papers have been inconsistent. Authors such as Persson and Tabellini(1991) or Alesina and Rodrik (1994), find evidence of a negative relationship between the two variables of interest; on the contrary, Li and Zou (1998) and Forbes (2000) find that greater inequality is associated with faster economic growth. Barro (2000 and 2008) claims that inequality has a positive effect on GDP growth in advanced economies, but has a negative impact in developing ones.” In our thesis, we chose to follow both the GDP and the Gini index for the studied period. The same criterion is applied to the choice of the variable of a number of people below the poverty line, in correlation with the development of privatization and post-privatization.

For example, in the OECD The Organization for Economic Co-operation and Development in its book “How was life? Global well-being since 1820”¹⁶ OECD has studied systematic evidence on long-term trends in global well-being since 1820 for 25 major countries and 8 regions in the world covering more than 80% of the world’s population; speaking about the privatization in Eastern Europe it mentions in the findings that there is a sharp increase in income inequality after the disintegration of communism¹⁷. We have tried to take that into consideration not only through the Gini index but with the poverty line population dynamics. The same approach and aim is applied in the choice of the development of unemployment for the period, the demographics, and the complex HDI (Human development index)

¹⁵ Feb 2015, LIS Cross-National Data Center, formerly known as the Luxembourg Income Study

¹⁶ OECD; How Was Life? Global Well-being since 1820 ; ISBN 978-92-64-21406, the year 2014

¹⁷ Ibid, main findings, page 20,21

2.2. Limitations

None of these variables individually, nor their complex presentations (to a lesser extent) represent a truly comprehensive picture of the process in every detail and in every possible subtlety. This is due to three major limitations:

- Technical: This has to do with the imperfections in statistical and other data, lack of such, imperfections of the methods for its treatment, etc. This is even more valid when we have to measure the starting point of our process and have to rely on data gathered under the socialist(communist) regime. For obvious reasons, this data is not only hard to find but difficult to interpret. We have made a commendable, we believe, effort in digging out such information;
- General: Using just six continuous variables obviously leaves certain gaps in the overall picture; however, the normal scope and framework of a thesis does not allow for much more. This leaves the door open for more detailed studies in the future.
- The major limitation, however, is not only the objectivity or certain subjectivity in the treatment and interpretation of statistical data; it is the impossibility to statistically represent all aspects of the economy in transition (or any economy), as a substantial part of it is in the gray or black zone. This is particularly true about the Bulgarian economy in the given period, where the gray/black economy had a share anywhere between 30% to 60% and more for the last 25 years. Example, for 2015, end year for the period, the gray economy in Bulgaria has shrunk to 31%, according to the index “Economy in the daylight”. This index, based mainly on indirect taxes, such as VAT, and sociological studies, is produced by the Bulgarian association of industrial capital and prof. Stefan Petranov, from the national Center “Economy in the

daylight".¹⁸ In the same study prof. Petrov clearly states that the „informal employment“ i.e. moonlighting or hidden labor, or undeclared work, has increased, but he is not too specific about the numbers. The Center for the study of democracy and the University of Sheffield, UK, (prof. Collin Williams, Chair of the Hidden Economy Expert Group), in an ongoing study, started in 2005¹⁹, states that undeclared work may be the biggest problem, with the share of people in countries like Bulgaria engaged in hidden labor going up to 20%.

All of the examples and considerations above clearly indicate that statistical data and indexes have severe limitations with regards to the core study of this thesis. It is also true, that using combined socio-economical approach, we have a better chance of correctly reading and understanding the data. This is also the reason to use a complexity of continuous variables (indexes) to try and better grasp the essence of the phenomenon.

3. Social values, new social structure.

For this part of the thesis, we have used a different methodological approach, qualitative and based on interviews, questionnaires, field studies, etc.

Some material has been interpreted also based on personal contacts and personal interviews with major agents of the privatization process. As a journalist and economist in Bulgaria in the years 1991 -1999 I have had the chance to be involved in several economic projects, privatization bids, and have been in contact with several of the major newly (then) emerging capitalists and the new Bulgarian political elite. Those interviews have not been structured, there are not preserved on paper or audio and therefore they have not been included as a separate material. The idea was to

¹⁸http://www.capital.bg/politika_i_ikonomika/bulgaria/2016/06/30/2787607_sivata_ikonomika_se_e_svila_pr_ez_2015_g/

¹⁹Colin C. Williams, (2005) "Market delusions: rethinking the trajectories of post-socialist societies", Foresight, Vol. 7 Issue: 3, pp.48-60, doi: 10.1108/14636680510601977 and other works.

separate any personal perception of the then processes from this study and to aim at the more objective picture, though any personal involvement on the terrain may if properly used, give some advantage in understanding the processes.

The main type of initial material, including the different studies and questionnaires, are somewhat more controversial in their nature, being to a certain degree more subjective, and sometimes with a clear political taste. Special attention was given to presenting different points of view and to attempt to follow maximum objectivity in the interpretation. For example, the new stratification of society, the “new poor” or other similar phenomena have a tendency for a “leftist” interpretations, while the new “westernized” and more individualistic social values have an obvious tendency to attract “right-centered” interpretations, including such from leading sociologist and economists.

In this sense, the picture presented has its limitations, based on the initial material and the effectiveness of the attempt to keep maximum neutrality and objectivity. What is more, the highly sensitive nature of the privatization process, in political, economic, legal and social contexts, makes it difficult on a personal level for any interviewee to express themselves freely, regardless of the fact whether they are “beneficiaries”, or “losers” of the process. This is also regardless of the fact the perception the individuals is based mainly on their final personal result. All that presents a certain challenge in terms of structuring the interviews, and it inevitably has a negative methodological effect, adding to the limitations of this approach. It leaves the door open, though, to possible new studies of the phenomenon through specially conceived structured interviews, which 25 years later, will be reflecting the different perceptions of the process and its development.

Overall, I believe that this two-prong approach, namely using the six continuous variable to measure the socio – economic effects at the at starting and final point of the period, as well as the correlations in the development of the processes, on the one hand, and using a qualitative approach based on interviews, studies and questionnaires to measure the changes in social structure and values – on the other hand, gives us a better chance of understanding the specific phenomenon we study.

IV. Hypotheses

We will argue that privatization in Bulgaria, as conducted by all governments implicated, regardless of their political programs and affiliations, and in all of the forms of privatization used, **was economically necessary, but socially destructive and led to devastating social consequences.** This superficially created contradiction between economic necessity and negative social consequences we see mainly as a result of flawed privatization policies and practices. It did emerge from the predominant at that time neo-liberal view on economy worldwide, including on post-communist economy, and the specific practices used in the Bulgarian privatization, based on this same neo-liberal economic theory, favored and benefited small social groups and not society as a whole. There could have been other approaches to privatization.²⁰

²⁰ For example, in their article **Mass Privatization, State Capacity, and Economic Growth in Post-Communist Countries** in the *American Sociological Review*, April 2012 77:295-324, Patrick Hamm, Lawrence King and David Stucker from Harvard University and the University of Cambridge argue that ``...we advance a neo-Weberian theory on post-communist economic collapse that focuses on the bureaucratic character and capacity of the state. For Weber, modern rational capitalism is characterized not only by capitalist property (private ownership of the major means of production), but also by the presence of *strong bureaucratic state* (Weber 1958a,1958b)...A bureaucratic state is essential to modern capitalism, because in its absence, individual capitalists might resort to *political capitalism* – the use of personal relationships with state officials to create extra-market opportunities for profitable activity (Weber 1966,1978)`. And further on the same page ``Our theoretical account is directly at odds with neoliberal explanations, because we argue that the closer a given

V. Presentation and analysis of the results

1. The nature of the problem.

The privatization, technically speaking, is the transition of government and co-operative, or more broadly speaking, socially owned property to private hands. This understanding of the process is by itself is an approximation. If we have to be technically more precise, we have to mention that privatization in Bulgaria was preceded by another process, called restitution. Restitution is returning to private owners or their heirs an existing government property that has been previously nationalized. Both processes are similar, as in both state property changes hands and owners, but they are not identical. To give an example, a private factory, existing and operating before the change of the regime to socialist or communist²¹ in September 1944 and the adhesion of Bulgaria to the Soviet block, was nationalized, in most cases, around 1948. It operated as government property until, again in many cases, 1990 and again, by an act of law has been returned to the previous private owners or, as it was most often the case, to their heirs. This is a typical case of ‘restitution’, a most straight-forward case of denationalization. Even in such cases, there are a lot of gray areas and unanswered questions, as usually the small enterprises that were nationalized in, let us say, 1948, were further developed and modernized until 1990 and a lot of added value has been created. For example, a private enterprise of 60

country’s policies approximated the neoliberal goal of mass privatization, the worse its subsequent economic performance.” (pages 300,301).

²¹ Both terms have been used as interchangeable, which is not quite correct. In 1875 Marx in the Critic of the Gotha programme refers to two stages of the future communist society, without explicitly naming them socialist and communist. However, later interpretations did exactly that). For the purposes of our memoire we will use the term “socialist”.

employees in 1948 experienced a transformation in the period 1948- 1990, becoming an enterprise with 5000 employees, and new assets as land, machines, technology and markets have been added to or created by the same enterprise. The handing back of the whole enterprise, of the totality of its assets and values to the previous, existing before the nationalization, owners or their estate, who undoubtedly had only some initial stake with regards to the final result, raises some moral and legal concerns and has far-reaching social consequences. Examples could be the textile factory “Fintex” in the town of Gabrovo or the ceramic factory “Misia” in the town of Gorna Oriahovitza, and many others. This should be a relatively straight- forward case, the one called ‘restitution’. The link to privatization is that property which went through restitution and was returned to the initial owners could not be privatized; it can be either privatized or go to restitution, but not both. However, both processes created social groups of new owners.

In most of the cases of privatization, the entire enterprise has been created from zero during the period 1945-1990 (the start of the transition period in Bulgaria, as generally accepted, is the 10th of November 1989) ²²and then transferred to private hands under some form of privatization. Such a massive transfer of property, not only in Bulgaria but in the former republics of USSR and transition countries in Eastern and Central Europe is unprecedented, particularly in terms of a peaceful change of the socio-economical paradigm. More importantly, the way this change was completed had a grave influence on the Bulgarian economy in particular and on the society as a whole, as it defines the place of the country in the global division of labor and global

²² (NB. On this day, hours after the fall of the Berlin Wall, the then ruling Bulgarian Socialist Party announced major changes in its leadership)

markets and is of primary importance. It is easy to imagine that the social consequences, which we will try to study and show, would be immense.

To put it plainly, a lot of added or new value, created in the period of 1945 to 1990 as government economic development (mostly in the industry) or cooperative jointly owned property (most of it in the agriculture) had to be transferred into private hands in a very short time and following a supposedly fair and legally adequate procedure, without any historic precedent as reference.

2. The nature of the property. Society, social actors, property, and redistribution of wealth in the pre-transition period.

In the light of the events, as they have developed through the years, it is of primary importance to get a better understanding of the structure and nature of the Bulgarian society and the nature of the property, both in the pre-transition and transition periods. It is imperative to understand how this property was created, managed and how it was seen by the different social actors involved in the process. We will try to show in more details the main concepts and our interpretation of the pre-transitional society, the political, economic functioning, structure and inner fabric, as these are directly related to the nature of assets and property this society created, the way these assets were produced, managed and accumulated – and how this affected their redistribution through the privatization.

2.1. The nature of the property.

Socialism and a socialist economy, following the USSR model, were introduced in Bulgaria as a result of the geopolitical changes, following the WWII. The division of Europe in the aftermath of the Teheran, Yalta, and Potsdam conferences and the other post-WWII agreements and clashes of the allies led to the firm affiliation of Bulgaria

to the USSR, the Warsaw Pact, and the COMECON, the latest being the economic union of the Eastern Block.

The above leads to an obvious, but very important conclusion: A socialist development of a Soviet type was not organic to the natural fabric and tradition of the Bulgarian society, as it was structured in 1944. This does not necessarily mean that the development of the country in the period 1944 – 1989 was seen by the population as something necessarily bad, though there were issues particularly with the collectivization of the agricultural sector. On the contrary, the years between 1944 and 1989 were marked by the unprecedented development of the country, industrialization, and urbanization. The major point here, in our view, is that the newly created property and assets, including in this very impressive industrialization and urbanization of the country²³, were regarded as somewhat forcefully created. They did not have a personalized owner, even in the aspect of the state. As a result, the proclaimed idea of *nationwide ownership* on all those new factories and collective agricultural farms did not really penetrate the social psychology of the nation, creating a “dual” understanding of the existing property: it was officially belonging to everybody, nation-owned, however unofficially it was perceived not to have any owner.

The Bulgarian sociologist prof. Ivo Hristov describes the process: “In the initial stages of its existence, the socialist system marked exceptional growth rates, often these rates are based on building social and economic structures literally on the bare field. The great advantage, but the illusion of the so-called. Catching up mobilization and modernization plans are that they have just models to catch up and rivals - in the

²³ The Bulgarian GDP in 1945 is 7 447 million USD., in 1987 it is 57 262 mil. USD., in 1989 r. - 55 883 million USD; During the 43 years of socialism, GDP has increased 7,7 times, an average of 18% annually.
<http://knoema.com/HSWE/historical-statistics-of-the-world-economy-1-2008-ad?tsId=1000800>

face of the West. Excessive dedication, total equalization, ubiquitous control and deliberate targeting on the macro level of resources, available to the public (including most of the human beings treated exactly as a "resource") provide unprecedented pace of development of socialist societies until at least early 70s of the 20th century. The amazing success of the enterprise in the medium term, however, predetermined the drama of its death. The way Bulgarian rural society was stuck in the "Second World" shape predetermined its present fate. Behind its external rudeness "real" socialism built on an accelerated construction of completely new civilization on the ruins of the traditional Bulgarian world. However, this does not remain unpunished, as far as trying to contrive history and enter into modernity through the back door “.²⁴

The property remained a rather abstract notion, though the assets themselves were very tangible, very present in everyday life. This played an enormous role in the privatization process.

Another aspect of this dual understanding of ownership (i.e. formerly belonging to society, *nationwide ownership*, but in reality as *nobody's ownership*) resulted in mass demotivation, theft, and low productivity of labor, particularly after the 70s. The annual growth of GDP in the USSR, as stated by the official statistics of that time, In the period 1970-75 was 5,7%, in 1975-80 it came down to 4,3%, the years 80 – 85 saw this indicator go down to 3,6%. The growth indicators for the same periods for the industrial output: 7,4%; 4,4% and 3,7%; for agriculture, the indicators are: 2,3%; 1,7% and 1,4%. Similar trends were observed in all the countries of the eastern bloc, including Bulgaria, where the economic situation became particularly unbearable in

²⁴ (NB: the translation is mine) **Looking at the ashes of the unborn Bulgarian society** ; Professor Ivo Hristov, Sociology department of Sofia University, article, magazine Memoria de futuro,23/05/2015; <http://www.memoriabg.com/2015/05/23/pred-pepelishteto-na-nestanaloto-bulgarsko-obshtestvo/>

the period 1985-1990. The external debt increased nearly three times in the period from 1985 to 89,²⁵ namely from 4 billion USD to 11,4 billion USD²⁶ which led to the state default on payments (state bankruptcy) in 1990.

Boyan Slavenkov, economic advisor to the first democratic president Z.Zhelev:

“At the end of the eighties, the Bulgarian economy crashed. It lost Russian markets and suffered from huge debt (I think it had reached \$10 billion) which was practically impossible to service. At the time, we could sense the absence of competitive exports and receipts of currency, the deficit swelled in the state budget, 40% of the companies worked on grants, unemployment was on the rise. I remember seeing a report from the WB predicting unemployment would reach two hundred thousand by the end of 1991. At that time unemployment was about half of that as confirmed in the Rahn-Utt report. This was a structural crisis comprising disintegration of the relationship between state-owned enterprises, lack of motivation in the labour force, inefficiency, and lack of motivation for reconstruction ”²⁷

What can this decline be attributed to, and why did it occur after the 70s? This is a complex question, and there is more than one possible explanation. One of the mainstream answers, and a relevant one, in our view, is that at the end of the 60ies and the beginning of the 70ies, in the wave of the world technological revolution, the Soviet model, adopted in Bulgaria, came to the limits of its extensive development.

²⁵ “It must be mentioned here that the monetary and debt policy of socialist Bulgaria was one of the most closely guarded secrets of the state. Even the detailed and meticulously done study called “History of foreign debt of the country from 1878 to 1990” published in 2006 by the Bulgarian National Bank gave no evidence of how the debt materialized in the eighties. It nevertheless led to a crisis which ended with an announcement of moratorium on 29 March 1990. “

“**The transition that never happened**” book, Krasimir Lakow, Institute for Market economy, Sofia, ISBN 978-954-8624-38-1 Sofia, 2014, p 90.

²⁶ **Ibid**, p 13

²⁷ **Ibid**, interview with Boyan Slavenkov, an economic advisor in the cabinet of first democratic President Zhelev., p 115

Because it was isolated from the world's technological trends it fell back in the technological race it was not able to make the next step to intensive vs extensive growth of the economy, a fact much more evident after the digital revolution. This is a general, external outline of the problem.

In terms of attitude to the assets and property, this had a surprisingly strong effect. The point is, that under those conditions, the official economic stimulus did not play any substantial role in creating and preserving national wealth. The regime had always favored non-economic methods: one was coercion, punishment for presumed crimes against “socialist property” and the other sacralization of the national wealth, promoted through the usual propaganda channels. Both were unsuccessful. The first, because under the conditions of the severe deficit, particularly in consumer goods, the temptation to unofficially redistribute public wealth and goods was too great. This led to the creation of enormous “shadow” or “gray” underground sector of the economy, which started accumulating capital at least a decade before the transition and played an important role in the privatization.

The second trend, the de-sacralization of the national, or to use the term of the times “socialist property” was more subtle, but really deadly for any further development of the socio-economic model. Starting after 1945 in Bulgaria, and particularly after 1956, the ruling elites, or the Nomenklatura, as per the widely used term, created a parallel re-distribution process for their own benefit. This included closed, but official networks for food and goods supply, official policies for education and career advancement of the children, different and much better housing, vacations, etc. The list of officially created privileges was quite extensive. In a small country like Bulgaria, this could not remain hidden from the public opinion. As a matter of fact, in all of the Eastern block states, including the USSR, those facts were widely known

and discussed. The effect on the propaganda “sacralization” of socialist social wealth was devastating. This is easy to understand, as the Soviet model was a mobilization model, requiring constant stress and straining all the participants in the name of presumably social justice. Obviously, trampling the very idea by the elites undermined the very essence of the system.

2.2. Society, social groups, and actors.

Following the Soviet model of society and economy very closely, Bulgaria developed all the social groups, actors, and interactions that could be observed in all the countries of the Eastern Block and particularly in the USSR. As a matter of fact, Bulgaria was considered the closest ally of the USSR, and in terms of socio-economic development, it meant that it reflected very faithfully the social structure specific to this model. With regards to the formation, use and ownership of the assets (property) created, we can distinguish three major groups: working class, both in industry, agriculture and other economic fields (transport, services, etc.); the intelligentsia²⁸,

²⁸ The term was popularised by a Russian writer, Pyotr Boborykin, in the 1860s, who proclaimed himself the "godfather" of the notion. **Motin S.V. On the Notion «Intelligentsia» in I. S. Aksakov and P. D. Boborykin's Works**, Izvestia PGU Belinskogo, 2012. №27. URL: <http://cyberleninka.ru/article/n/o-ponyatii-intelligentsiya-v-tvorchestve-i-s-aksakova-i-p-d-boborykina> (22.08.2016).

He claimed that he borrowed the term from German culture, where the term *Intelligenz* denoted the social strata of people engaged in intellectual occupations, however he insisted on a special meaning of the Russian term, which had an additional implication of high intellectual culture.

A narrower term 'intellectuals', according to Pierre Bourdieu, can be applied to those members of intelligentsia who not only work using their intellect, but also create cultural wealth :**l'intellectuel collectif**. **Lenoir Rémi, « Un humanisme scientifique : Pierre Bourdieu et l'intellectuel collectif »**, Sociétés & Représentations, 1/2002 (n° 13), p. 5-6.

Max Weber considered intelligentsia to be a major category essentially distinct from other social categories, both in terms of attributes and interests. In his major work, *Economy and Society* he used this term in arbitrary chronological and geographical frames, e.g., he wrote that "this Christian preoccupation with the formulation of dogmas was in Antiquity particularly influenced by the distinctive character of 'intelligentsia', which was the product of Greek education". When formulating major social classes of his time, Weber combines intelligentsia with other social categories, e.g., he defines a major class consisting of "the propertyless intelligentsia and specialists (technicians, various kinds of white-collar employees, civil servants – possible with considerable social differences depending on the cost of their training)" and yet other "classes privileged through property and education": **Max Weber, "Economy and Society: An Outline of Interpretive Sociology", ISBN 0-520-03500-3 p.462**

and, a third, very specific but very important both for the pre-transition and transition period and the privatization – the nomenclatura. This particular social group emerges from the nature of the Soviet type social model in all, without any exception, countries following that model, regardless of their local tradition, place in the world, history, and stage of development. There are numerous definitions and extensive studies on the phenomenon. We will use one of the most widely accepted:²⁹ “This is a group that originates from the seizure of power in the state to dominate it in the sphere of production. This group exercises in the first place political leadership over society to manage its material production, which is its second task. Political Management – this is the essential function of nomenclature. Taken in its integrity, this group provides the full range of power in society “ And also from the same chapter: “ The main characteristic of the nomenclatura – it is the exercising of power. The bourgeoisie has the rights on property and that is why it dominates society, the nomenclatura is dominating (our) society and that is why it has the rights on the property.”³⁰The role of this social group in the privatization in Bulgaria is primary, so we will look at it later in more detail, however at this point, it seems important to note the relationship of power and property ownership.

The nomenclatura did not have any ownership, it was gaining access to the property through power, in the privatization process a huge chunk of this group successfully traded power for ownership.

²⁹ **Voslenskij M.S. The Nomenclatura.** — M.: Zaharov, 2005. — 640 p. — ISBN 5-8159-0499-6. Chapter III., the translation is mine.

³⁰ Ibid

It is difficult to give a quantitative estimation of what proportion of the nomenclatura was transformed into owners, following the transition period and the privatization.

Some researchers give a rough estimation of 60-70% for the former USSR, based also on the fact that the nomenclatura got most of the privatized assets.³¹

There is no specific official data for Bulgaria, to the best of our knowledge, but the trend is quite similar.

What were the segments of those three major groups in the Bulgarian society towards the end of the socialist regime? It is not as easy to answer this question, though it seems a fairly easy one. The reason is that this kind of statistics was not open to researchers before 1990, and after this year the studies concentrated on the current situation and future projections.

A good estimation is provided by two leading Bulgarian sociologists, A. Raichev and K. Stoichev, who had conducted sociological research before and during the transition period.³² Before 1989, as part of the government structures, and after 1990 as founders and owners of BBSS Gallup International, Bulgaria:

³¹ "The quantitative results of privatization seem to be highly impressive. By the end of 1999 more than 140,000 former state-owned enterprises (out of a total of 267,000 non-agricultural enterprises) had become privately owned or stock corporations. This group included more than 25,000 large enterprises, each employing thousands of workers. Especially impressive is what is termed "small privatization" in the service industry, where the private sector exceeded 80 percent. The privatized enterprises use more than 60 percent of the productive capital in manufacturing, produce 75 percent of the Russian GDP, and employ about 80 percent of the national labor force" : Victor Supyan, former deputy director of the Institute of USA and Canada Studies and a professor at the Russian Academy of Foreign Trade **Privatization in Russia : Preliminary Results and Socioeconomic Implications; p 144 ;** https://www2.gwu.edu/~ieresgwu/assets/docs/demokratizatsiya%20archive/09-1_Supyan.PDF

³² Raichev and Stoychev, **What happened? A story about the transition in Bulgaria, 1989-2004**; published: 2004, ISBN-10: 9545288663 ; ISBN-13: 9789545288661 (NB the translation is mine), pp 48,49.

” In the (Bulgarian socialist) society, living under the conditions of “Shortage economy” (as per Janos Kornai)³³ we had a gigantic – about 80% - middle-class group. This group was characterized not only by the certain level of consumption but also by a number of “invisible”, self-explanatory” characteristics of “status”, namely:

- Universal and free basic education;
- Universal and very accessible high-school education;
- Guaranteed and free health care, including dental care;
- Practically full-employment;
- Very high level of protection for maternity and children, heavily subsidized children's' clothing and food;
- High level of mobility, very low-cost public transport;
- Real estate ownership statistics: 90% of the population owned a real estate property (apartment, country home)
- Access to culture (very affordable, comparable to the one in Western Europe, also in terms of quality;
- Massive access to holidays and sport's facilities
- Systematic allocation of state resources for integration of minority ethnic groups (particularly the Roma population)

As (possession of personal) property this 80% segment of the middle-class group can be described by the following parameters:

³³ The above authors Rajchev and Stoychev seem to refer to **Growth, Shortage, And Efficiency : A Macrodynamic Model Of The Socialist Economy** by János Kornai, Publisher: University of California Press,1982; ISBN-10: 0520049012; ISBN-13: 9780520049017

- Have an apartment, a car, and a country house –..... 15% (NB of the translator – mortgages and car loans were not existing at that time ³⁴);
- Have two of the three above items -35%;
- Have one of the items, usually an apartment –..... 90%

It is particularly interesting to note that the members of this middle-class group had a natural feeling of equality. More precisely, they understand social equality as a natural attribute of the world (they live in). This feeling is so deep, that it is not even at the level of “values”, it is at the level of “natural obviousness ” ³⁵

Based on this estimate, and also on the studies of the Bulgarian sociology professor Mikhail Mirchev³⁶ we can give the following estimate of the social structure of the pre-transition Bulgarian society, the groups determined with regards to their level of consumption, private property, access to “status” and services:

- Elites – around 1%-2%.
- Middle-class group – 80%
- Lower-to-middle - 8 to 10%
- Lower class - 8 to 10%

As per social status and participation in the social organization and production, approximately:

³⁴ Ibid

³⁵ Data of BBSS Gallup International BG, a social survey by asking the question: Did your household possess (have) any of the...(above items) before 1989? The question has been asked three times with an interval of several years, after 1989.”

³⁶ Mihail Mirchev. **SOCIAL DIFFERENTIATION IN THE YEARS OF THE TRANSITION AND THE CRISIS (1990-2008, 2008-2012), p.383-385**

- Nomenclatura..... 1-3%³⁷
- Intelligencia.....5-7%
- Working class, both in industry, agriculture, services, and related economic activities, including retired.....80-85%
- Marginalized, mainly in the Roma ethnic group – 5% ³⁸

What is most obvious – that is the high level of homogeneity of the pre-transition Bulgarian society, where the proportion defined as a middle-class group by consumption, access to services and statuses, possession of property – is in general overlapping, or coinciding, with the proportion defined as working population and is around 85%.

2.3. Redistribution of property in the pre-transition period

We already mentioned the dual character of the property, or assets and produced wealth in the socialist society: as ‘nation-wide’, everybody’s property - officially and, at the same time “nobody’s property” – unofficially. This ambiguous, dual status of property in the social perception led to two different ways of its redistribution, which later played a very important role during the transition and privatization. There was the official way of circulation of goods and services, access and statuses – through salary and purchasing goods and services, through access to very affordable housing, education, health system, sports facilities, etc. Officially, the ratio of the highest to lowest salary in the socialist economy was roughly 5:1, at full employment.³⁹ This

³⁷ A. Vezekov, „Power structures of the Bulgarian Communist party 1944-1989”, *Institute of recent history, 2008* .

³⁸ The approximations are due to certain lack open statistical data for the period before 1990, and we have based our estimate on the cited works of professors A.Raichev/K.Stoichev and M. Mirchev, the other need of approximation is vertical mobility and exchanges between the groups.

³⁹ Minimal wage in 1989 as per decree of the Council of Ministers No 97 of 1988. – 140 leva;
<https://www.kik-info.com/spravochnik/mrz.php>

official redistribution, or we may call it the first network, also included an additional, officially existing, but not included in the statistical data, closed system of distributions of goods and services for the highest nomenclatura, about 1-3% of the population. Statistically, this could not skew much the picture, but the moral effects were devastating. The reason was the social perception that there is a huge injustice and a small group of people is taking advantage of the system and of the society, abusing of their position of power in the most hypocritical manner.

This was one of the two factors, that led to the creation of a new secondary social network⁴⁰ for redistribution of wealth and accesses, which vaguely follows the notion of “The Gift – Le Don” as understood by Marcel Mauss.⁴¹ The other factor was the constant deficit in the socialist economy, due to rigid central planning. This second problem was predicted in the 20s by Ludwig von Mises⁴² and later developed by a great number of authors. The already cited Janos Kornai (21) makes a very strong contribution to this point of view.

Therefore, the dual character of the property, the de-sacralization it went through, as a result of the special redistribution privileges of the nomenklatura, and the deficit - all these factors combined created the conditions for the emerging of a unofficial, lower-

1989	01.07.1989 - 30.06.1990	140.00	ПМС № 97/1988 г.
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The maximum for a Head of Directorate in the Central Committee of the Communist party – 700 – 750 leva;
Minister in the Council of Ministers– 800 leva

1st Secretary of a region in the country – 700 leva

<http://www.desehistory.com/2012/06/24-09071981.html>

⁴⁰ The sociological discovery of network societies began long before this term was used with any reference to pre-transitional socialist societies as Bulgaria., by concepts described by Jan van Dijk, Barry Wellman, Hiltz and Turoff, and Manuel Castells, to name a few. However, we try to limit the concept to the specific conditions and historic time for Bulgaria.

⁴¹ This interesting comparison was made in the book by Raichev and Stoychev, **What happened? A story about the transition in Bulgaria, 1989-2004**; published: 2004, ISBN-10: 9545288663 ; ISBN-13: 9789545288661

⁴² **Socialism: An Economic and Sociological Analysis**. Indianapolis, IN: Liberty Fund, 1981. ISBN 0-913966-63-0.

level of redistribution network. This network, though, had to solve two additional problems:

- how to measure any equivalence of the exchanged goods, services, accesses, etc.
- How to avoid any legal issues related to possible accusations of corruption, bribery and any illegal redistribution of wealth.

For the first problem – there was never a solution because a solution was never really needed, for practical purposes. Necessity was determining the exchange, not the value. To give a practical example – if I work in an auto-parts shop, selling auto parts, and my cousin, or a friend, works in a grocery, selling fresh fruit, and if there is a constant deficit for fresh fruit and auto parts. So, we will work out some form of exchange. Not direct: I will not steal the auto parts to exchange them for fruit at some money value, which determines the exchange equivalence. I will give my friend the chance to come and BUY, legally, auto parts, when they arrive and are in stock, and not SELL them to other customers. All this in a government owned shop. He, in return, will do the same for the fresh fruit in the government store he manages. This is a simple exchange of goods. It solves also the second problem – this exchange is basically legal, as there are official buying and selling, receipts are issued, money enters at the cashier desk, etc. But it needs a network, or I will never find fresh fruit because of the deficit, and my friend will never repair his car. The money value of the fruit may be 10, or 100 times less than the money value of the auto parts, however, this does not matter. My kid needs fresh fruit as badly as my friend needs his car.

We can enlarge the example, and this time, we will avoid exchanging goods. I am, this time, the director of a prestigious vacation complex, government property, of course. My friend is a dean at a prestigious government university. I will give him

access to the vacation complex every summer as long as I am a director (practically for the rest of our working lives) if he helps my daughter pass the entrance exams to the university. We have a deal, and probably it will not involve cooking of the entrance exams' results but will involve some tutoring and private lessons for the daughter, which otherwise are not available. Most probably this will not even lead to any money exchange, maybe to some gifts, plus the ACCESS to the government vacation complex practically for life, in exchange for the access to this specific university.

Similar relationships, gifts, exchanges can be found, we think, in any society, primitive, developing, or modern/postmodern. The socialist pre-transition society, though, was almost entirely based on this unofficial network and the exchanges it involved.

The important part here is that this network did create, long before the privatization, some of the important unofficial channels through which this very privatization moved, including the transformation of social capital (in a way as understood by Pierre Bourdieu) into real, tangible assets.

Because of this characteristic of the pre-transition society, we will allow ourselves to cite one longer text referring to the social networks in Bulgaria in the pre-transition period, quote:

The term “secondary network” was coined by the Bulgarian sociologist Peter-Emil Mitev at the beginning of the 80s. He took it from a journalist article, but puts it in a very clear scientific context, following one thought of Marx: “Every individual has some social power under the form of a commodity. Deprive the commodity of this social power and you have to give it to individuals as power over other individuals

(Marx, Engels, Economic manuscripts, 1857-59) From this point of view the history of socialism can be told as the gradual and slow victory of civil society over the party/state.

This is a form of a “quiet revolution” which took place in the 80ies on the territory of the former Soviet Union and in the countries of Eastern Europe, but did yet occur in China or Vietnam. Revolutions do not always lead to a favorable “happy” outcomes— in a number of Asian ex-soviet republics we can see how this secondary network leads to different mutations, to different social and economic structures.

So, let us define what is “civil society” under socialism: this is a secondary network, self-imposed exchange of:

a/ goods against accesses,

b/ accesses against accesses;

c/ goods against goods.

The key characteristic of this secondary network is that it is omnipresent and all – ruling elites and ruled by them masses – are submerged into it. From an internal point of view, from the point of view of the participants, this network is a deviation, as an irregularity, a violation, because it directly contradicts the official ideological norms of the first network – this of the party/state. Thus, we get a strange picture of massive bifurcated behavior, where the official norm is a constant ritual and the deviation – everyday life practice.”⁴³

3. Theoretical basis for the privatization

⁴³ “Raichev and Stoychev, **What happened? A story about the transition in Bulgaria**, 1989-2004; published: 2004,ISBN-10: 9545288663 ; ISBN-13: 9789545288661,pp 37-38(NB the translation is mine)

3.1. General basis – The Washington consensus

In November 1989, when Bulgaria started on the way to transition to democracy and the free market, the mainstream economic thought has shifted from Keynesianism, prevailing in the 70s, towards more free-market policies and a neo-liberal agenda. Formulated as a “ten commandments” in 1989, the Washington consensus had become a prevailing school of thought before the “commandments” were coined, it was practically in existence since the beginning of the 80s. Some economists argue that after going through its peak in 90s, the Washington consensus faded away around the year 2000,⁴⁴ while more and more scientists claim that it finally came to an end in the global financial crisis of 2008-2009.⁴⁵

Whatever the case, it was the chance of Eastern and Central Europe, including Bulgaria, to follow the recipe, when in 1989 the English economist John Williamson outlined a set of desirable economic reforms targeted at developing countries that he deemed broadly supported by policymakers in Washington. Dubbed the “Washington Consensus”, it addressed economic policy instruments perceived by those in Washington to be important to both the growth of developing countries and their ability to secure financial support and investment. The ten topics addressed were as follows:

- **Fiscal Discipline:** Large and sustained fiscal deficits contribute to inflation and capital flight. Therefore, governments should keep them to a minimum.

⁴⁴ Nancy Birdsall; Augusto de la Torre & Felipe Valencia Caicedo (2010-04-06). "The Washington Consensus: Assessing a Damaged Brand—Working Paper 213". Center for Global Development .

⁴⁵ Robert Skidelsky (2009). *Keynes: The Return of the Master*. Allen Lane. pp. 101, 102, 116–117. ISBN 978-1-84614-258-1.

- **Public Expenditure Priorities:** Subsidies need to be reduced or eliminated. Government spending should be redirected toward education, health, and infrastructure development.
- **Tax Reform:** The tax base “should be broad” and marginal tax rates “should be moderate.”
- **Interest Rates:** Domestic financial markets should determine a country’s interest rates. Positive real interest rates discourage capital flight and increase savings.
- **Exchange Rates:** Developing countries must adopt a “competitive” exchange rate that will bolster exports by making them cheaper abroad.
- **Trade Liberalization:** Tariffs should be minimized and should never be applied toward intermediate goods needed to produce exports.
- **Foreign Direct Investment:** Foreign investment can bring needed capital and skills and, therefore, should be encouraged.
- **Privatization:** Private industry operates more efficiently because managers either have a “direct personal stake in the profits of an enterprise or are accountable to those who do.” State-owned enterprises ought to be privatized.
- **Deregulation:** Excessive government regulation can promote corruption and discriminate against smaller enterprises that have minimal access to the higher reaches of the bureaucracy. Governments have to deregulate the economy.
- **Property Rights:** Property rights must be enforced. Weak laws and poor judicial systems reduce incentives to save and accumulate wealth.⁴⁶

⁴⁶ As per **Williamson himself, 2008**, originally published in 2004, Peterson Institute for International economics, www.piie.com, table 2.1 , presentation of Stenley Fisher, governor of the Bank of Israel from 2005 to 2013, previously served as chief economist at the World Bank, as of January 10, 2014, Vice-Chairman of the US Federal Reserve Board of Governors.

The three main ideas presented in the Washington Consensus are macroeconomic discipline, the development and promotion of a market economy, and a general degree of openness to the world.⁴⁷

Williamson has gone on to include the need for crisis aversion and macroeconomic stabilization, strong institutions, and a focus on who receives increases in wealth as important components of the consensus⁴⁸

Though the recipe looks logical and sound from an economical point of view, it has one major flaw: It does not work, most of the time. It did not work in Latin America, one drastic example being Argentina (but far from being the only one) , it did not work in many Central and Eastern European post-communist countries in transition, it did not work in Russia, which religiously followed the instructions of the IMF and the World Bank and in 1998 went officially bankrupt, as the state declared a default on its payments. On the contrary, countries like China, who did not privatize, did not liberalize, used and do use protectionism seems to be doing better. Particularly harsh criticism was voiced over the social and economic impact these policies have on the population of countries, following related to the Washington consensus reforms.

The list of the critiques of the Washington consensus is rather long, let us mention just Joseph Stiglitz, Nobel Prize winner for economy and former chief economist of the World Bank; Dani Rodrik from the Institute for advanced studies in Princeton

And added comments on each point as per **Jason D Symoniak, New voices in public policy**, George Mason University, ISSN: 1947-2633.

⁴⁷ **Williamson, John. "Did the Washington Consensus Fail?"** Peterson Institute for International Economics, 6 Nov. 2002. Web. 20 Mar. 2010. paragraph 4,

⁴⁸ **Williamson, John. "The Strange History of the Washington Consensus."** Journal of PostKeynesian Economics 27.2 (2004-5): 195-205.

and joint editor-in-chief of the academic journal *Global Policy*; Noam Chomsky, MIT, linguistics and cognitive science, the latter focusing more on social consequences of the neo-liberal policies.⁴⁹

The “ten commandments” of the Washington consensus are just the tip of the iceberg. In a broader sense, they represent an essence of the whole neo-liberal theory. This theory, in all its complexity, turns around the idea that the market as a natural phenomenon is far more effective in allocating resources, than any other actor, particularly the state. The famous “invisible hand” of the market, a term introduced by Adam Smith, somehow regulates all the activities and rationalizes the process of any economic action, automatically helps supply and demand to reach the famous “equilibrium”. In his famous “Wealth of the Nations,”, in 1776, Adam Smith uses this term just once: in Book IV, Chapter II, paragraph IX:

“But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that

⁴⁹ “The most recent example is Mexico. It was highly praised as a prize student of the rules of the Washington consensus and offered as a model for others-as wages collapsed, poverty increased almost as fast as the number of billionaires, foreign capital flowed in (mostly speculative, or for exploitation of cheap labor kept under control by the brutal “democracy”). Also familiar is the collapse of the house of cards in December 1994. Today half the population cannot obtain minimum food requirements, while the man who controls the corn market remains on the list of Mexico’s billionaires, one category in which the country ranks high.”
Profit Over People by Noam Chomsky, Seven Stories Press, 1999

of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an **invisible hand** to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.”

The resurgence of the term after the 70s and its modern use are closely connected to the contribution to the economic theory by Milton Friedman and Friedrich Hayek, and to the ideology of Ayn Rand, though originally it was coined by the German scholar Alexander Rüstow in 1938 at the Colloque Walter Lippmann. In practice, neoliberalism is famously associated with the economic policies introduced by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States at the beginning of the 80ies.

3.2. **A contemporary critique of the neo-liberal school of thought and privatization.**

The neo-liberal concepts have been harshly criticized as both economically and socially destructive and seen by many prominent scientists as “spread of global capitalism and consumerism, as well as the equally deplorable demolition of the proactive welfare state (cf. especially Bourdieu 1998; 1998a; 2001; Chomsky 1999;

Touraine 2001; Hermansen 2005; Saad-Filho and Johnston 2005; Hagen 2006; Plehwe et al. 2006)”⁵⁰

Some authors, like David Harvey, professor of anthropology and geography at the Graduate Center of the City University of New York, author of “ A brief history of Neoliberalism”⁵¹, go as far as seeing a definite political agenda behind the neo-liberal practices. As he puts it quite bluntly in an interview given to Bjarke Skærlund Risager, a Ph.D. fellow at the Department of Philosophy and History of Ideas at Aarhus University on 07.23.2016 “I’ve always treated neoliberalism as a political project carried out by the corporate capitalist class as they felt intensely threatened both politically and economically towards the end of the 1960s into the 1970s. They desperately wanted to launch a political project that would curb the power of labor. It was an ideological assault but also an economic assault. To me, this is what neoliberalism was about: it was that political project, and I think the bourgeoisie or the corporate capitalist class put it into motion bit by bit.

I don’t think they started out by reading Hayek or anything, I think they just intuitively said, “We gotta crush labor, how do we do it?” And they found that there was a legitimizing theory out there, which would support that.”

In his book David Harvey builds a detailed picture of some of the economic consequences of the new-liberal doctrine, backed by an impressive amount of data. Here is an example: “To what degree, then, has neo-liberalization succeeded in stimulating capital accumulation? Its actual record turns out to be nothing short of dismal. Aggregate global growth rates stood at 3.5 percent or so in the 1960s and even

⁵⁰ **What is Neoliberalism?** Dag Einar Thorsen and Amund Lie ,Department of Political Science University of Oslo, p. 2

⁵¹ **David Harvey, A brief history of neo liberalism**, Oxford University press, 2005, ISBN 0–19–928326–5

during the troubled 1970s fell only to 2.4 per cent. But the subsequent growth rates of 1.4 per cent and 1.1 per cent for the 1980s and 1990s (and a rate that barely touches 1 per cent since 2000) indicate that neo-liberalization has broadly failed to stimulate worldwide growth. In some cases, such as the territories of the ex-Soviet Union and those countries in central Europe that submitted to neoliberal ‘shock therapy’, there have been catastrophic losses. During the 1990s, Russian per capita income declined at the rate of 3.5 per cent annually. A large proportion of the population fell into poverty, and male life expectancy declined by five years as a result. Ukraine’s experience was similar. Only Poland, which flouted IMF advice, showed any marked improvement. In much of Latin America neo-liberalization produced either stagnation (in the ‘lost decade’ of the 1980s) or spurts of growth followed by economic collapse (as in Argentina). And in Africa, for example in DRC Congo, it has been trying in vain generate positive changes. Only in East and South-East Asia, followed now to some extent by India, has neo-liberalization been associated with any positive record of growth, and there the not very neoliberal developmental states played a very significant role. The contrast between China’s growth (nearly 10 percent annually) and Russian decline (−3.5 percent annually) is stark. Informal employment has soared worldwide (estimates suggest it rose from 29 percent of the economically active population in Latin America during the 1980s to 44 percent during the 1990s) and almost all global indicators on health levels, life expectancy, infant mortality, and the like show losses rather than gains in well-being since the 1960s.

We see that there is little to no evidence that the neo-liberal economic concept works in practice. In our view, there are several reasons for that:

- The “ten commandments” are regarded as some universal formula, applicable to any country under any circumstances. As practice shows, reality is much more complicated than that, in terms of types of economy, tradition, conditions, natural monopolies, to mention a few restrictions;
- The neoliberal understanding of economic processes is quite abstract, based on quantitative models that cannot formalize the social fabric of the societies as a natural environment for economic activity. The famous “equilibrium” between supply and demand is a notion that requires “laboratory conditions”, an abstract and pure marketplace, guided by rational decisions, where all the participants have comparable to equal resources, including information. This is very far from reality.
- The idea that social inequality and the concentration of capital will lead to a “trickle down” effect of redistribution of wealth, i.e. will lead to increased job creation and consumption is not supported by tangible evidence up to this point.
- The lack of regulations and interventions leads to a natural further concentration of capital and wealth in fewer hands and reduced social vertical mobility. As Thomas Piketty shows it in his “Capital of the 21st century”⁵²—with the exception of the period of 1945-1990, this has always been the trend.⁵³

⁵² First published as „ **Le capital au XXI siècle**“ , copyright © 2013 Éditions du Seuil, ISBN 978-0-674-43000-6

⁵³ **Ibid**, pp. 209,210, on the example of the USA. `` Inequality reached its lowest ebb in the United States between 1950 and 1980: the top decile of the income hierarchy claimed 30 to 35 percent of US national income, or roughly the same level as in France today. This is what Paul Krugman nostalgically refers to as “the America we love”—the America of his childhood. In the 1960s, the period of the TV series Mad Men and General de Gaulle, the United States was in fact a more egalitarian society than France (where the upper decile’s share had increased dramatically to well above 35 percent), at least for those US citizens whose skin was white. Since 1980, however, income inequality has exploded in the United States. The upper decile’s share increased from 30–35 percent of national income in the 1970s to 45–50 percent in the 2000s— an increase of 15 points of national income (see Figure 8.5). The shape of the curve is rather impressively steep, and it is natural to wonder how long such a rapid increase can continue: if change continues at the same pace, for example, the upper decile will be raking in 60 percent of national income by 2030.``

- Privatization, as a part of the neo-liberal concept, can be effective only if combined with the rule of law and defense of property rights. Otherwise, it begins to demonstrate trends towards criminalization and mass corruption.

Particularly in the area of privatization, the neoliberal theory and practice have been severely criticized. Here is another example of Jason D. Symoniak's analysis: ⁵⁴

“Despite the obvious advantages of privatization, history has taught us that it is not always the correct remedy. Consider the privatization of many state-owned Russian enterprises near the end of the twentieth century. In one instance, privatization was rushed in anticipation of the election of a communist legislature that would have blocked any attempts at the sale of state-owned enterprises. Businesses that were not ready to be privatized were rushed into the process and the outcomes were poor. In other instances, government officials needed funds for their campaigns. They traded shares in state-owned enterprises for loans from business tycoons and eventually sold many of the largest, most profitable businesses in the country for unreasonably low prices. These examples teach two important lessons. The first is that industries must be ready to be privatized in order to function efficiently. Williamson himself acknowledged that it is more important to do things right than to do them quickly. The second is that privatization procedures must be transparent and fair. They should be in the interest of the population as a whole, rather than powerful individuals or groups. A final consideration must also be given as to whether a business should be privatized at all. Many businesses that provide utilities operate as natural monopolies because of the enormous start-up costs associated with competition in the industry. These costs are then passed on to the consumer. Similarly, the provision of a good such as public transportation may necessarily rely on public support to remain cost-effective. For

⁵⁴ Jason D Symoniak, *New voices in public policy*, George Mason University, ISSN: 1947-2633.p.13

these reasons, it can be said that privatization is a positive process as long as it is done where needed and in an appropriate manner. “

At the time when Bulgaria was going into transition, the prevailing theoretical and practical basis for such countries to follow was neo-liberal. The concept was massively adopted and introduced through the institutions of The World Bank, the IMF(policies and loans with new liberal economic conditionalities), and the Federal Reserve (the latter issues the national currency as world reserve currency) . Such approach did not have a valid record of success, it was based on models deemed universal, very theoretical, implying high social cost, and may have been influenced by political agenda. Nevertheless, they were adapted and implemented.

3.3. The Bulgarian version of the neo-liberal transition plan. The role and place of privatization. The Rahn – Utt plan.

In November 1989 Richard Rahn, at that time chief economist of the Chamber of Commerce of the United States delivers a lecture on transition in Hungary. Several Bulgarian economists from major institutions attend. In March 1990, the Bulgarian Government approaches Mr. Rahn and asks for “technical assistance” in carrying out the pending economic reforms. Six months later 18 economists from the USA administration come up with a national strategy for Bulgaria, aimed at economic growth through the transition to free market economy. In August the same year, the American team spends several weeks in Bulgaria, together with a group of Bulgarian colleagues, working on the plan and clarifying details and time –frames for the implementation of the plan. This plan included the following major points, to be implemented by the end of 1990:

- Creation of a privatization program, to be written by Ronald Utt, a vice-president of the US National Chamber of commerce, sponsor of the project;
- Start of the monetary reforms;
- Introducing free exchange of foreign currencies;
- Abolishing state control over prices and salaries;
- Creating social networks for the poor; revising the law on social politics;
- Tax reform;
- Adapting the local trade legislation to the new realities;

This plan is widely discussed in Bulgaria and is considered very controversial, from the distance in time and according to the results achieved. It was not fully implemented until much later, and then only partially. The major figure in creating the plan, Mr. Rahn, blames the negative effects of the Bulgarian transition period on the late and inadequate implementation. The Bulgarian researcher Krasimir Lakov agrees with this:

„Today, 23 years after the fall of communism in Bulgaria, it can be said with a high degree of certainty that if the recipes and timetable provided in the Rahn-Utt plan were applied the transition to market economy and democracy would have been far smoother and more successful. Bulgaria would be much better prepared for EU membership and would not lag behind other Central European countries. The principles of a modern market economy and effective production lay on the basis of the report. The report attempted to show a way in which production could maintain market share and a competitive edge, a means by which to develop the industry and preserve agriculture, to reform the social sector, healthcare system, and education. Its aims were to build and upgrade, not deteriorate or destroy. For those with a short

memory and lack of information, it is perhaps not difficult to draw incorrect conclusions and blame the Rahn-Utt plan for what occurred in the country during the past two decades. Inferring causality where there may be none has led to a negative perception about the plan amongst people in Bulgaria. It is clear, however, that the intention of its authors was to find the safest possible route for the country during a stormy and unprecedented transition. The advice presented in this report was not followed in a timely manner. On the contrary, many of the reforms introduced by politicians in the country were in direct opposition to the proposals of the report. For this reason, much of it remained simply an untapped opportunity.“⁵⁵

We would not fully agree that the Rahn-Utt plan remained an untapped opportunity. Though it was certainly not implemented within the time frames it recommended, it outlined the major directions in the economic changes during the transition period.

The Austrian professor Peter Bachmeier in his article “From the second to the Third world”⁵⁶ states, in a summary, that the birth of the neoliberal project in Bulgaria in the socio-economical sense of the word was the program document of the American economists Richard Rahn and Ronald Utt. The new Bulgarian political elite declared, that there is no alternative to this program...and made attempts to curb the discussion on it and to prevent the emergence of alternative projects. The socio- economic system, which was formed as a result of the neoliberal revolution. Is characterized by the following:

- Partially market economy concentrated not on production, but on consumption of diminishing resources, unable to provide material, cultural and human reproduction of the nation;

⁵⁵ **The Transition That Never Happened** by Krasimir Lakov, book, ISBN 978-954-8624-38-1 , Sofia 2014, p 103 <http://www.thetransitionthatneverhappened.info/var/TheTransitionThatNeverHappened-Book-Bulgarian-English.pdf>

⁵⁶ **Current Concerns, Zurich, 2008**, № 3-4, Bulgarian publication : Ponedelnik magazine, 7/8 Sofia, 2008, “**From the Second to the Third world – The transition of Bulgaria from state socialism to neoliberalism 1989 - 2008**”

- Weakening of the state and reducing it to simple bureaucratic structure;
- Sell off of state property and creation of oligarchic capital;
- Control of the country by foreign capital, example: 90% of the remaining banks and industry today (2008) are foreign property;

This reform, claims professor Peter Bachmeier in the same article , was guided by the IMF, the World Bank, who gave the loans for its implementation. Those loans were bound by political conditions and were given only if the (Bulgarian) government would agree to drastic structural reforms...In the first six years after the collapse of the communist regime not even one loan was fully paid, because the Bulgarian government was not able to fulfill the conditions. The program, imposed on Bulgaria was not different from the similar programs imposed on Latin American countries and today (2008 -Ibid) it is explained as monetarism and neoliberalism.

Bulgaria was given the usual set of measures, applicable to developing countries, without any tailoring of the approach. It looks like the neo-liberal school of thought has one pill for every illness and for every patient. It is a fact that the plan was not followed nor executed neither in the time frame nor in the details. However, this plan did set some general framework of the transition to follow.

4. Chronology and stages of the privatization, types of privatization and value of the privatized assets.

4.1. Chronology

The transition to a free market in Bulgaria started, as we have previously mentioned, in November 1989 as a result of political changes in the regime. Attempts at introducing more liberal market reforms and private property had, in fact, started earlier under the socialist regime, with all the restrictions that this implies. On the 9th

January 1989 a law was adopted, known as Law No56, which namely stated that “ economic activity can be carried based on all forms of property and ownership (Paragraph 1, point 1)” and that” the main subject of economic activity is the corporation (Paragraph 2, point 1)” The same law defined the forms of ownership as state-owned, municipal, cooperative, belonging to unions, mass organization, and – **citizens**, and also claiming that all forms of ownership and property will be equally treated by the law.

This was an attempt at something, which from the position of today’s knowledge we can define as an attempt at some type of a Chinese development, where private initiative and entrepreneurship was introduced under the rule of the communist party.

After the regime changes, and after the Rhan-Utt plan there was a pause in the privatization process, mainly due to continuous political struggle in the country, and the law on privatization was adopted in April 1992. The first privatization deal was in April 1993 in , followed by another pause from 1993 to 1995, during which time there was an extensive debate on what type of privatization should be followed – cash privatization (direct selling) or mass privatization (trough vouchers, or shares) At the end of 1995 and during 1996 the government started a mass privatization, and in parallel introduced a third, preferential type of privatization, through the so – called “workers and managers companies” or WMC, which gave preferential rights to the management and the workers of any state-owned enterprise to privatize it. From 1997 to 2000, there is a very speedy process of cash and WMC privatization, which carried out the bulk of the deals. From 2000 to 2003, there was practically no privatization activities carried out, and in 2003 some privatization started of remaining natural monopolies, which is the tail end of the process. The whole process was long, meandering and messy.

It looks like that for 11 years – from the end of 1989 till 2000 the Bulgarian state did not know what to privatize, how to privatize, which set of rules and laws to use: the cash privatization or direct sale to investors, the mass privatization or issuing vouchers (shares) to the population, which vouchers were traded and quickly accumulated in private in privatization funds, or to use the so-called WMC “Workers / Managers companies” with preferential treatment to privatize the state-owned entity where they were working.⁵⁷

In fact, this complexity and vagueness of the process reflect a long power struggle between different actors, who were creating the conditions and the capitals for participating in the privatization. At the beginning of the process, there was no legal private capital existing in Bulgaria, which is obvious given the nature of the regime. The only participants, who could take part in the cash privatization (direct sale) were foreign investors. Attracting foreign investors was an official policy, but unofficially it did not sit well with the local elites, which had started to form. All the actors took the time to create capital, conditions and winning positions in the privatization process.

4.2. Stages and types of privatization

The stages are somewhat difficult to differentiate because many of the processes were running in parallel. We think the best classification is in the already mentioned book of A. Rajchev and K Stojchev “**What happened? A story about the transition in**

⁵⁷ Actually, those companies were called “Workers/Managers Companies”, but we have not witnessed and have no data about any real workers’ participation in them.

Bulgaria, 1989-2004” and in the detailed study “ **The networks of the transition**”⁵⁸ and we will follow, in general lines, their classification of the chronology and the stages.

a/ Economy of the entry/exit controls 1989 –1994

The socialist state property, after 1989 was not under the previous rigid communist party control (as the regime has changed) and was not under the control of law enforcement agencies, considered at that time “repressive institutions of the previous regime”. Also, the legal framework was not clear and subject to all kinds of interpretations. Actually the previously mentioned in our study dual status of the socialist property – as abstract “nationwide” or everybody’s property and perceived unofficially as “nobody’s had changed. It has clearly shifted towards the “nobody’s zone. This allowed a shadowy “privatization” of the profit and the amortization costs of the functioning socialist enterprises by the so-called “entrance – exit” method. At the economic entrance of the state production unit appears a newly formed private company. Usually, it is controlled, through fictitious owners, or ‘straw men” by the management of the same state industrial unit. This new private company supplies the raw materials for the production, and any related goods and services, at artificially high prices. The private company has created for itself a “super profit” even before the production had started. At the “exit”, where the state production unit has to sell the ready product, there is a similar private company, also shadowy controlled by the management (in most cases). This “exit” private company buys the ready product at artificially low prices – at cost price or lower. The state – the official owner of the production unit – is constantly at a heavy loss. The private companies and the people

⁵⁸ Ivan Cholakov, Andrei Bundjulow, Iwo Hristow, Liliqna Deyanova, Nina Nikolova, Deian Deianov, Tihomir Mitev, Boyan Slavenkov, Ognian Simeonov, Plamen Chipev, Vesselin Stoynev, Stilia Felici – authors, publishing house Iztok-Zapad (East-West), 2008, ISBN 978-954-321-444-0

behind them (very often the management of the state unit) accumulate hefty profits and accumulate capital for the future privatization.

This is a simple scheme, but it worked and it worked massively. The only question is why the state factory does not go bankrupt? Eventually, it does and will be sold for 1 dollar (the biggest metallurgical complex in Bulgaria, 35 000 workers, as well as many other enterprises were sold at that price). Before the sale, the state factory, as a legal/moral person, will live on credits from the state banks to cover the losses. As it turns out, this bankruptcy is delayed in time. By the end of 1995, 41% of all the credits of the state-owned enterprises are not collectible, have to be written off, and the net worth of the country's banking system after the bankruptcy of the 16 largest banks is negative – minus 53 billion leva.⁵⁹ In this way the state entities, both in industry and agriculture are drained of capital, and so is the banking system, which finally collapsed. Additionally, through the collapse of the banking system, the ordinary clients, individuals, lost another 5 billion euros. This is the process through which a substantial part of the privatization capital was created.

b/ Mass privatization 1995-1996

The mass privatization – through “vouchers” or “participating shares” issued to the population was created and conceived as ‘socially fair’. For some reason, it was not explained too well to the population, and resulted in the quick accumulation of all the vouchers in total 81 funds, about 30 of them - big “privatization funds”. Those funds not only manage, they legally owned the newly acquired assets, because the vouchers were bought by the privatization funds in advance, they (the vouchers) were not given

⁵⁹ Report of the Minister of Interior Dobrev to the then Prime-minister Videnov:” The total sum of bad and dubious credits at the end of 1995 is 342,5 billion leva, which is about 40% of the GDP for the same year. The net value of the bank capital of the commercial banks is negative – minus 53,3 billion leva.(the translation is mine); https://frognews.bg/news_22026/Bankov_oktopod_skrit_v_sekretniia_doklad_Dobrev/

to the funds for management purposes, they were sold. What happened in most of the cases is that the privatization funds did not keep the factories or other production acquired through the vouchers, as sole owners they sold off whatever could be sold, buildings, machines, etc. and in very few cases there were investments, mostly in tourism. The vouchers very largely ineffective, except for creating some personal wealth as a result of sell-offs. The hyperinflation in 1996 – 1997 put an end to their use.

c/Workers`/Managers companies privatization (WMC) 1997- 2001

Within a year and a half, the management of about 3000 government companies was changed. The newly formed WMC had preferential conditions in privatizing the government enterprises, and they did privatize massively during this period. There were also cases of direct sales to investors. This period gave the bulk of privatization deals, in many cases decapitalized completely through the “entrance – exit scheme” we described here.

After 2001 the privatization process continues but at a much slower pace. However, in 2004 some of the naturally existing monopolies in Bulgaria are sold, like the Bulgarian Telecommunication Company, and the electricity distribution network of 7 separate entities, and in 2011 – the state cigarette holding “Bulgartabac”

Totally for the period 1989 -2004 we have income in thousands leva:

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
320	3994	9124	23053	619051	512412	818929	822538	683445	427377	451528	598102	4969928

This includes 5 186 privatizations in the period 1989-2004⁶⁰ for a total of

4 969 928 thousand leva. (about 2, 84 billion USD at average 2016 conversion rates)

Out of this amount, **1 797 884 thousand leva or (36,2%) were paid in cash**, the rest, or **3 172 044** thousand leva – in different bonds and other debt instruments.

On top of the price paid the buyers, or investors, had in almost all the cases the obligation to invest seriously and specifically mentioned in the contracts amounts in the future, and to keep a high percentage of the working force, and to follow other conditions, which came under the umbrella name of post-privatization control. We do not take into consideration those promised investments here because in most of the cases they never came, the contracts for future investments and post-privatisation control clauses were not honored.

Here we consider the net income from the privatization, as published by the NSI – National Statistics Institute. If we add to this number the income from Bulgartabac holding and the estimated income from the electro- distribution network (all 7 entities have complex clauses for payments, not all of them public), we will get an approximate amount as a total result of **3,45 billion USD**, out of which about **1,3 billion USD** (1 300 million USD) were paid in cash. Those are the proceeds for

⁶⁰ NSI - National Statistic Institute of Bulgaria

more than 60% of all state assets and for more than 90% of the assets planned for privatization.⁶¹

Whether this is a lot, or is this just enough – or is this too little and maybe too late?

4.3. The value of the privatized assets

Calculating the value of any company is a difficult and tricky question. It is a difficult task in countries with capitalist traditions and several centuries of constant theory and practice in free market economy. It is even more difficult in countries in transition.

And still, it is important to understand this approximate aggregate value of the privatized assets because this determined to a great extent their further use, the origin and the distribution of the newly formed capital, and, as a consequence- the newly formed elites, other social groups, and the new social structure.

As a general rule, the value of any company can be determined, very roughly speaking, in two separate ways, or a combination of them:

a/ as the value of the long term and short term assets this company has on its balance sheets, minus all obligations;

b/ as a capacity to produce income for a mid to long-term period.

A simple example: What is the value of a huge vineyard? Obviously, this is the value of the land, the value of the vines planted and their condition, including their annual output of grape and its average quality, the value of any buildings, equipment, and infrastructure, amortization, etc. If we are buying just the assets, not the company that owns them, this might be enough. If we are buying the company (with the assets

⁶¹ Ibid. The calculation method used by the NSI is the method recommended by the World Bank, based on the balance sheet of the long term assets as of 31.12.1995. For our purposes -We have added only the proceeds from the major privatization deals after 2004.

belonging to it), then we shall consider the company's long and short-term debt, account receivables, account payables, and other items on the balance sheet.⁶² And even in this simple example, there are open questions: Are we also buying the technology for producing the wine, how much is this technology worth, if anything? Are we buying the brand name of the final product? Any value of what is generally called "goodwill"⁶³ is tricky to quantify.

Another example, for the second case – value by income produced. We are buying a brokerage firm, conducting everyday transactions on the stock exchange. The firm has offices that it rents, they do not belong to the company, servers, computers systems and computer time that it rents, and employees that it has hired. Practically, there is no tangible value to discuss. And still, the company easily creates 10 millions of net annual income, after tax and expenses. Probably the market price of such company will be based on several years of net income, let's say 5 years and may be in the vicinity of 50 million.

For the 5186 privatization deals, just in the period 1989-2004, the breakdown as per sector of activity was: Industry - 1 625 deals, Trading companies– 1170, Agriculture and forestry – 618, Tourism – 522, Construction – 520, Transport – 384, Energy- – 182, Culture– 55, Healthcare – 52, Military and defence companies – 47 and others – 11 deals.⁶⁴ Each sector has a lot of explicit details influencing the value of the specific company, and the method to follow in determining it.

⁶² This is rough approximation, the real process of assessing the value by balance sheet is much more complicated.

⁶³ **Goodwill** is an intangible asset that arises as a result of the acquisition of one company by another for a premium value. The value of a company's brand name, solid customer base, good customer relations, good employee relations and any patents or proprietary technology represent **goodwill**- Investopedia dictionary.

⁶⁴ National Statistical Institute

Following the neo-liberal understanding of the nature of the privatization, the value of any company or asset is determined by the market. To a certain extent, this is true. It is also tragically true that about 60-70% of any production in Bulgaria was designed and produced based on outdated technologies and the infrastructure and the equipment was heavily amortized. The reason this production, both in industry, in agriculture, etc. was going at full speed, is the fact that it was produced according to contracts with the USSR and the other countries of the Eastern block within the COMECON⁶⁵. In many cases, those were barter exchanges or exchanges paid in virtual currency⁶⁶, used for accounting purposes. The quality of the goods did not matter much, neither the cost of production. What mattered was the production per volume of units or items. With the collapse of the Soviet Union and the Comecon system, this type of secured market share (60-70 %) for the overall production of the country disappeared. On the other hand, many of the produced brands, particularly in agricultural produce and related light industry, had established themselves on the Soviet market (250 million consumers) and were easily tradable and marketable on the ex-soviet markets, if ever to be produced again.

So the neo-liberal concept was an easy way out of the situation, particularly to be applied to state-owned companies with outdated technology, murky market future

⁶⁵ Comecon, byname of **Council for Mutual Economic Assistance (CMEA)**, also called (from 1991) **Organization for International Economic Cooperation**, organization established in January 1949 to facilitate and coordinate the economic development of the eastern European countries belonging to the Soviet bloc. **Encyclopedia Britannica.**

⁶⁶**Transfer Ruble (also transferable ruble)**, an accounting unit and means of payment in joint international accounts of countries members of the Council for Mutual Economic Assistance (COMECON). The transfer ruble was instituted in accordance with the Oct. 22, 1963, Agreement of the COMECON Countries on Multilateral Account in Transfer Rubles and on the Organization of the International Bank for Economic Cooperation (IBEC). The gold content of the transfer ruble is set at 0.987412 g of pure gold. Funds in this currency may be used freely by any country for its accounts and payments in any other country that is a party to the agreement. **The Great Soviet Encyclopaedia, 1979**

and, in the most cases, already heavily in debt and de-capitalised by 10 years of “entry-exit” abusive schemes (previously mentioned).

According to this logic, any price was good, as long as someone was willing to pay it. This opened the gates for accusations of corruption and crime, and the debate has not been resolved yet. There are examples of successful privatization, and there are examples of very debatable privatization. For instance, the cement industry, nationwide, is an example of successful privatization. Six cement factories were privatized, five of them are as of today still functioning and producing, they have conserved their market share, some have been technologically updated. Another successful story is the story of the chemical plants “Devnya”, now bought and managed by the Belgian company “Solvay”, or the privatization of petrol refinery “Neftochim”, bought and managed by the Russian “Lukoil”. Worth mentioning is the Canadian “Dandy Precious metals” which has a concession for non-ferrous metals and gold and is operating in the former state production plant “Zlatica-Pirdop”. Some critics of the privatization model insist that it was easy to sell chemical plants, cement plants, refineries and other polluting production in a country, which was not a part of the EU at the time and did not have such strict environmental regulations. Actually, the list is quite long, particularly if we add the privatization of the tourist sector and the following construction at the Bulgarian coast, heavily criticized by environmentalists.

On the other hand, the debate goes on and on, as the accusations of selling under value, of corruption and crime, of “deindustrializing” the country continue to this day. Some units were sold at a price, much lower than the stock of final products they had

in their warehouses⁶⁷. The second oil refinery (Bulgaria had two altogether), “Plama” and the privatization of the national air carrier “Balkan” are often cited as a privatization failure. Regardless of post – privatization clauses and control, the asset of both companies were sold and finally, the companies were closed. If you are an investor, and you buy a heavily indebted company, like the national air carrier “Balkan”, the temptation to sell the assets and close the whole issue is very strong, weighted against the idea to struggle for the survival of the company, even if such a survival is possible. What is more, in the specific case, the assets to sell included airplanes, hotels, slots and rights at international airports, etc. The national air carrier “Balkan” was sold in June 1999 for 150 000 leva (roughly 100 000 USD!) and the buyer assumed all the debt, what is more, he undertook the obligation to invest another 100 million USD in the future development of the company. Finally, he sold the assets and closed the company down, though this was forbidden by post-privatization control and a specific clause in the contract. When the dust settled down, the investor walked away with a profit of 300 million USD, as per some experts.⁶⁸

As this is a delicate subject, including many legal specificities. We refer Nikola Filchev, Chief Prosecutor of Bulgaria from 1999 to 2006, in an interview that was given on air to the National TV Chanel 1 on the 16th of February 2010:”⁶⁹ ...Because as Chief Prosecutor of the Republic I have followed my duty to make sure we have established a rule of law and to prevent the plundering of state property. The group of Kostov (NB Prime minister of Bulgaria 1997-2001) conducted a criminal privatization, looted state property. Under the leadership of Kostov state property valued at 30 billion USD was privatized, and only 3 billion USD entered in the state

⁶⁷ The winery “Damyanitza” was sold for for 1,5 mil USD, while in the caves it had 2,4 mil bottles of wine, each easily sellable for 1,5 usd at the international markets.

⁶⁸ **Tema magazine, Ivailo Bojanow** “Balkan was given away...” issue45 (264), 13-19 November 2006

⁶⁹ NB The translation is mine

budget. This created deep social inequality, a division of society to different classes, poor and rich, and created the basis for organized crime in Bulgaria.

The interviewer: “You know, Mr. Filtchev, that the foundation of all this is the argument, that during this privatization, during this sale, the price is as per the market offer and demand, whatever is the offer – that is the price, you know that this was the argument...”

This was brought forward as an argument, but the facts contradict such an understanding (of the situation). For example, “Kremikovzi”, a metallurgical complex which has a value of 1 billion USD, was sold for 1 dollar, was given away as a gift...What are the facts: it was sold for 1 dollar, because that was the maximum price, given the heavy debt of the company. A few years later the buyer sold again part of this complex for 500-600 thousand USD. If you look at it, the whole metallurgical complex was worth 1 billion USD, and at the same time, Kostov wrote off the debts. Of course, immediately we have the question, why Kostov (the prime minister their-NB) was not taken to court...

Interviewer:” Yes, and why you did not charge him, you were the Chief prosecutor at that time. Why did you not charge him, why did you not convict the prime minister?”

The reason is that what he did he did it as a real expert, he did not sign anything at all himself, however I brought charges against 10 of his ministers to bring them to justice, because as a result of this privatization Bulgaria is poor, we have no funds for healthcare, social services, pensions, for the teachers, for salaries and so on. From an economically strong country, we have come to be the poorest country in Europe.”

Leaving aside the emotional tone, these statements come from the head of the judicial branch of power at the time of the privatization. Actually, the state prosecution started a number of investigations on different privatization deals, but there are no convictions, as of today.

The value of the privatized assets and companies is a debatable issue and this debate still continues. Some more conservative estimations stick to the number of 20 billion USD, other go to 40 billion or higher. The net result for the state is about 3,5 billion USD. It is important, though, to understand the nature of the problem, because most of the personal and corporate wealth in Bulgaria was created as a result of the privatization, and not as a result of some gradual accumulation. The privatization radically changed the economic and social structure and the attempt to quantify the value of the assets distributed during the process, the way it was done, the final cash result and the emerging of the new owners, foreign and local, are of primary importance.

5. Variables

In this memoire, we argue that the privatization was economically necessary, but socially destructive, mainly because of the neo-liberal model it used. The privatization was not constructive in terms of further economic development, and the social consequences were enormous in scale. To better understand the social consequences, we will use 5 variables, mostly continuous variables, to try and outline the socio-economic conditions in the period during the privatization and after that.

5.1. The number of people living below the poverty line

To give an idea of where this indicator is at the end of 2015: “According to Plamen Dimitrov, president of the Confederation of Independent Trade Unions of Bulgaria

(KNSB), a third of the Bulgarian population lives below the poverty line.⁷⁰ Dimitrov said this in an interview for private bTV station on Tuesday, January 26th, 2016, basing his words on the latest figures presented by KNSB on Monday. The data of the trade union showed that 30 % of all households in the country or more than 2 200 000 people have an income below the poverty line. At the end of 2015, a typical four-member household (2 adults and 2 children) needed a monthly income of around BGN 2242 in order to cover its expenses on food, education, healthcare, and housing. Thus, a member of such a household needed a monthly income of BGN 560.55 to cover one's basic expenses. In the last quarter of last year, the poverty line reached BGN 295.55. According to estimates, 48 % of the Bulgarian population or 3.5 million people have a total income of between BGN 296 and BGN 561. KNSB estimated that Bulgaria needs an economic growth of 4-5 % in order to restore the level of employment it had before the crisis. The trade union will insist for 10-15 % increase in revenues in the private sector this year, which is expected to result in rising of the average wage. In Dimitrov's opinion, poverty is the greatest problem in Bulgaria which is mutually related to the demographic crisis. He reminded that estimates of Eurostat showed that 40 % of Bulgarians are threatened from social exclusion. In his words, the key to dealing with poverty lies in the income tax, with flat tax leading to social inequalities. Another major problem is that there is 460 000 working poor, with 260 000 of them earning the minimum wage”.⁷¹

The World Bank gives the following dynamics of the process, starting only in 2005, in the percentage of the population:

⁷⁰ The poverty line is based on a basket of 77 essential goods and services.

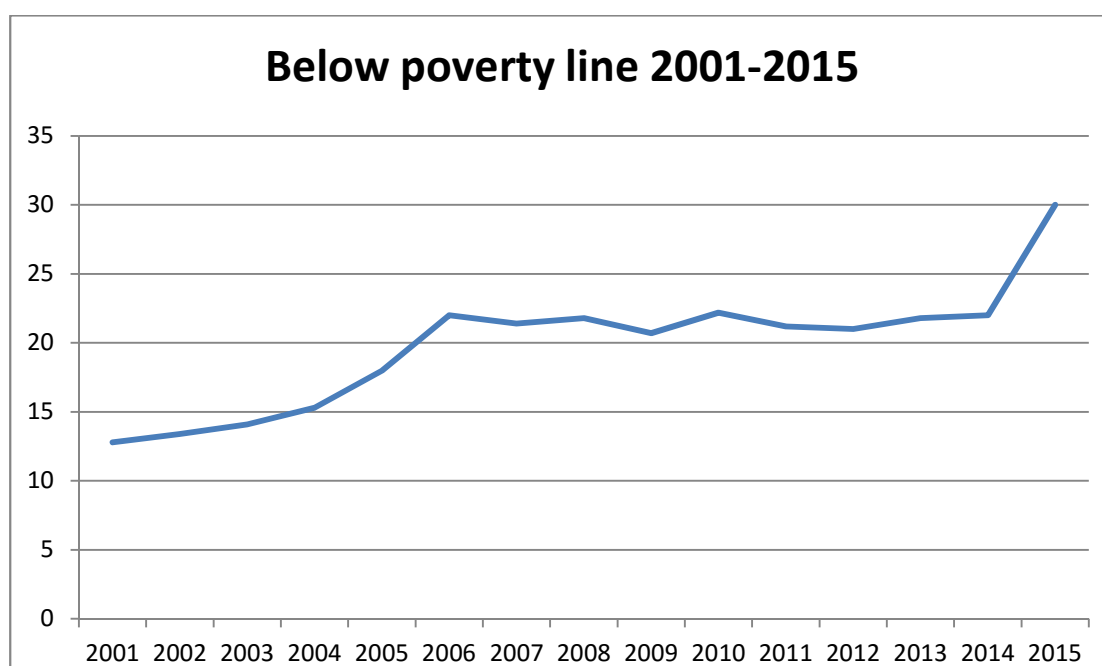
⁷¹<http://www.novinite.com/articles/172809/Trade+Union%3A+Third+of+Bulgarians+Live+Below+Poverty+Line#sthash.eG65Aa74.dpuf>

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
18	22,0	21,4	21,8	20,7	22,2	21,2	21.0	21,8	22.0

For 2015, based on the above quote – 30%.

The NationMaster stats gives us the figures for 2001 – 2004.⁷²

So if we combine the data, we have the following graph:



We did not find adequate statistical data for people before 1989 as a starting point.

This is because such information was never made public by the regime. If we have to base ourselves on some indirect data from professor Mirchev⁷³, below the poverty line in 1989- 1990 were about 2% of the population, and at risk (near the poverty line) – about 10%.

⁷² <http://www.nationmaster.com/country-info/stats/Economy/Population-below-poverty-line#history>

⁷³ Mihail Mirchev. *Social differentiation in the years of transition and the crisis* (1990-2008, 2008-2012), p.360

So we can say there is a clear trend of increasing the number of people below the poverty line after the privatization – 2001 to 2015 more than 2 times, and probably as much at the same rate during the first stage 1990-2000.

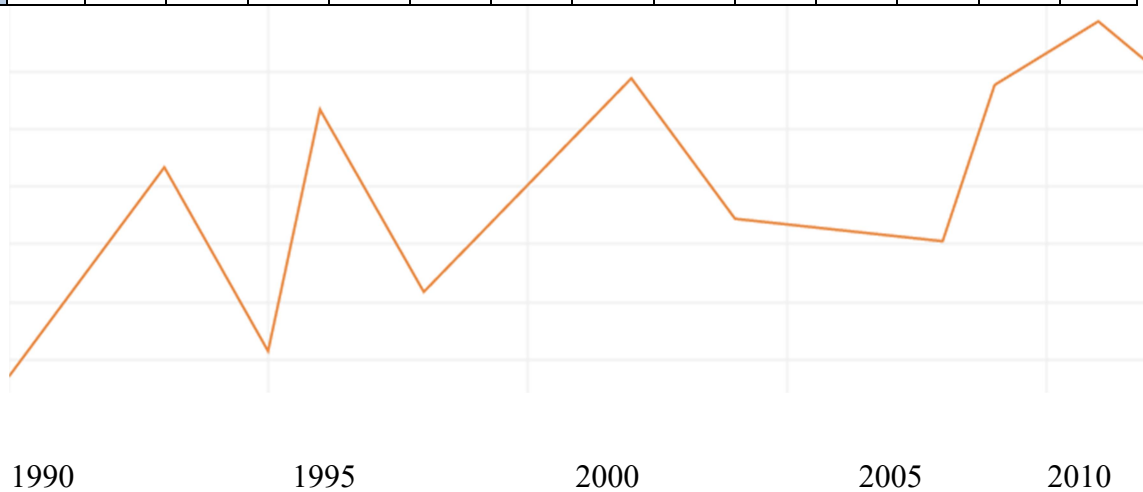
5.2. The Gini index

The Gini index is a measurement of the income distribution of a country's residents. This number, which ranges between 0 and 1 and is based on residents' net income, helps define the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality⁷⁴

For Bulgaria Gini index, the data is as follows:⁷⁵

And the same table could be seen as a graphics below.

Year	1989	1992	1994	1995	1997	2001	2003	2006	2007	2008	2009	2010	2011	2012
Value	23.43	30.71	24.32	35.40	26.38	32.68	28.90	35.73	28.14	33.57	33.82	25.65	34.28	36.01



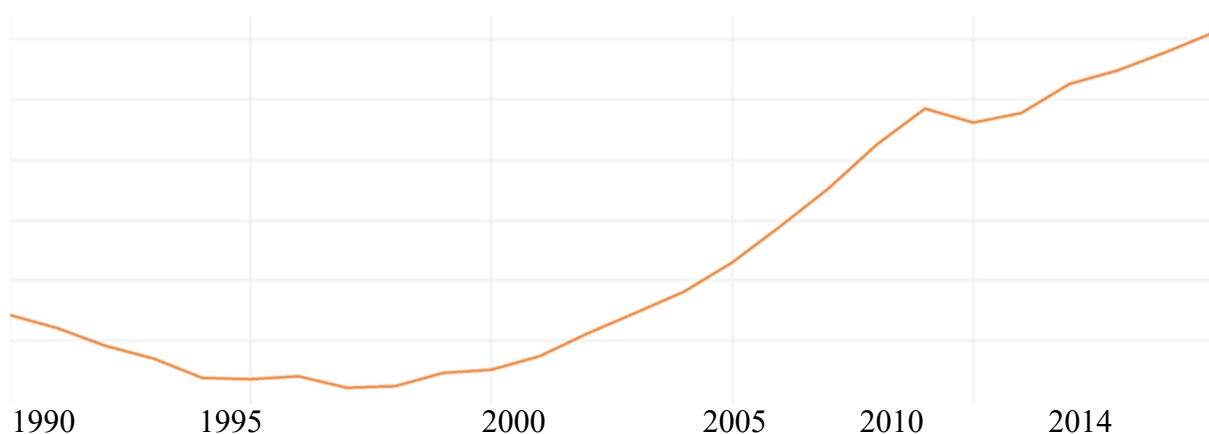
⁷⁴ Investopedia.

⁷⁵ World bank, cross country data

Though the dynamics of the Gini index is not so drastic, we can see the same trend here of increasing inequality – the important increase starting in 1989, the substantial increase from 0,2430 in 1977, following the beginning of the third and most massive wave of privatization and coming to 0.3601 in 2012, which shows without any doubt further growth of income inequality. The dip in 1994 is more explainable by internal politics, in our opinion, and the leftist government coming to power at that time, rather than by major economic changes. The unsuccessful experiments of this government may have influenced the bouncing back and forth changes in the Gini Index in the period 1994 – 1997. A similar effect may have the changes of governments in 2001 and 2005, every new government trying to start by using more populist measures in the income distribution at the beginning of its mandate.

However, the trend of increase is very clear. What is more, now the Gini index is approaching the socially critical, or alarming value of 0.4. Moving beyond that point of 0.4 would mean, in most interpretations of the Gini index, a risk zone for social unrest.

5.3. Dynamics of GDP per capita 1989-2014⁷⁶



⁷⁶ IMF CROSS COUNTRY macroeconomics statistics

GDP per capita in USD⁷⁷; And the same table could be seen as the graphics above.

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Value	8 893	8 457	7 864	7 740	6 830	6762	6858	6 477	6 538	6 970	7 075	7 552	8 238

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Value	8968	9666	10638	11839	13093	14528	15740	15276	15593	16599	17009	17631	18271

What we see here is that generally speaking, that privatization has been good for the economy in the long run. It was economically necessary and justifiable. Though GDP is a very aggregate and general indicator and does not give many details about structural changes, what is of importance for us is that nevertheless, it shows clearly an improvement and constant growth.

We can clearly see the downward trend from 1990 to the turning point in 1997-98 when the major privatization deals started. This was the first dip is the “shadowy” stage of the privatization, where the state-owned companies were decapitalized through “entry-exit” schemes. Then we have gradual comeback with the biggest, this as per our chronology, a wave of privatization in 1997-2000. And the upward trend starting at around 2001 - 2002, when the GDP comes back to its pre – transition levels and moves upwards. The smaller dip we see around 2008-2010 is more related to the world crises at that time than to the transition itself.

The trend of the GDP is very clear, we witness growth after the privatization. What is also important is that at the same time that the GDP is growing, the number of

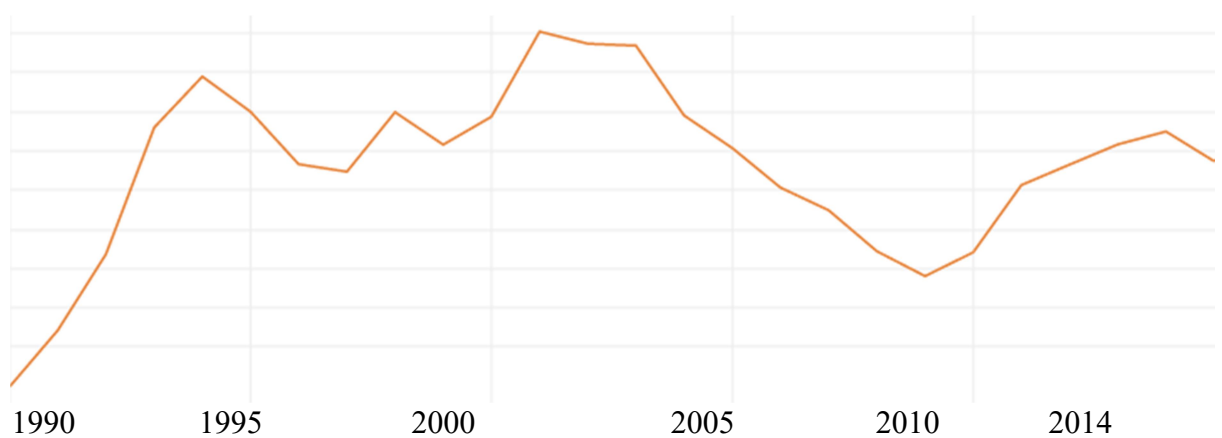
⁷⁷ Ibid

people below poverty line is increasing, as well as the disparity in incomes (Gini index) increases. This is a clear indication that there is no “trickle down” effect of wealth, or at least not for a significant part of the population, and actually, the increase of wealth under the present model is leading to further social differentiation.

5.4. Unemployment rates.

The unemployment rate is, generally, one of the important factors for measuring the state of the economy. It has a few different definitions and, therefore, different ways of measurement, we will be using this indicator as a percentage of the unemployed versus the total labor force.⁷⁸

Unemployment rate 1989-2014



⁷⁸ IMF cross country statistics

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
0.03	2.90	6.78	13.24	15.84	15.05	11.37	10.99	14.02	12.37	13.79	18.13	17.51	17.42

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
23.86	12.19	10.18	9.02	6.94	5.66	8.88	10.31	11.35	12.30	13.04	11.52

And the same table could be seen as the graphics above.

The picture that we see, if we co-relate it to the three stages of privatization, as we describe them in this paper, shows a very steep rise from 0.03 at the beginning of the period to 14-16% in 1994-1995, then stays around those levels until 2000, jumps even more to 18% in 2001 – the end of the third wave of privatization and then slowly goes down to more normal levels, though still high, of 11-12% at the end of the period. The peak observed after 2008 is more related to the global economic crisis than to internal factors.

We can be tempted to come to the conclusion that after the third wave of privatization the trend is positive and the rates of unemployment decline. To a great extent, this is true. Nevertheless, there are three different factors, that are alarming. The statistics show the unemployment as a percentage of the labor force. However, there is a part of the population that is not registered in the labor force, though it is not employed. Either people have “given up” looking for work, or they are young people that neither study nor work and are not registered as unemployed. This group is not included in the unemployment statistics, but it is quite large. For 2015 the NSI - National statistics institute ⁷⁹ gives the number of “discouraged” and not registered unemployed, not

⁷⁹ National statistics institute, Bulgaria, labour force.

looking for work in the age 15-64-year-old, at 172 900, which is an additional 4-5% unemployment.

The other factor is the decrease of the labor force due to aging, emigration, etc. The workforce was 4.1 million 1990, and it is down to 3.3 million in 2015⁸⁰, or a 20% decrease. Even if the level of the employed in the economy stayed the same, this would show in the statistic as a substantial decrease in unemployment rates.

The third factor is the structure of the unemployed and in particular the unemployment in the group 15-24 years of age. The percentage in this group for 2015 is 21.6%, almost twice the average, and has stayed high during the whole transition period. This, combined with poor working conditions, has led to massive migration of young labor force, mostly qualified specialists, to other countries.

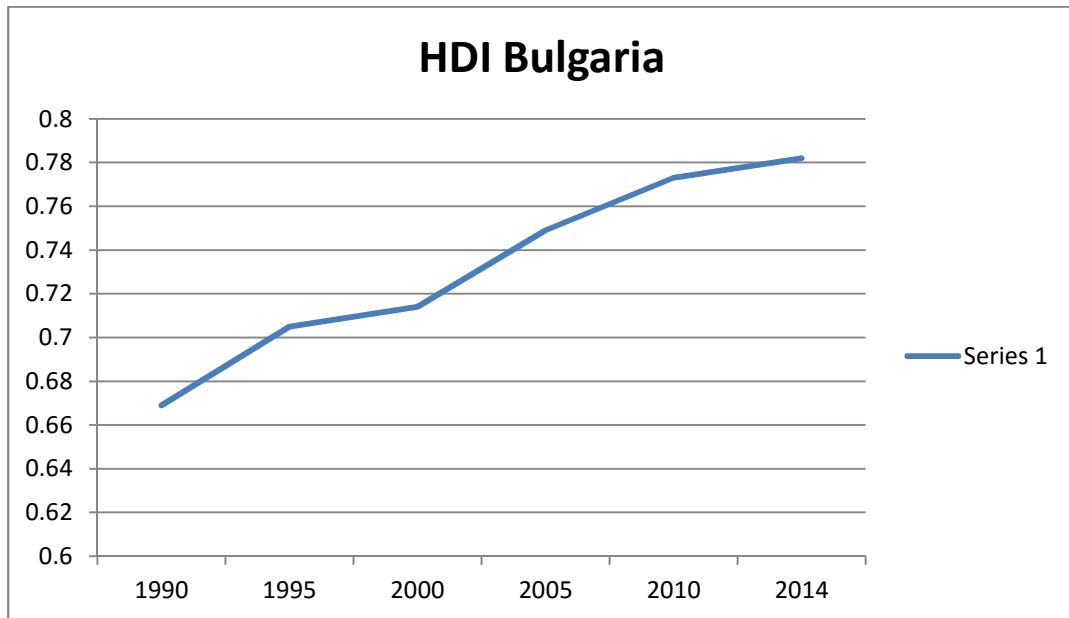
The trend of unemployment rates in Bulgaria for the period after the privatization, and particularly after the third wave in 1997-2001 is positive. The peaks in unemployment are in the first stage, 1990-1995, during the “shadow” privatization through decapitalizing the state enterprises, and after the third stage of privatization in 2001. After this period, we witness a positive trend. However, if regarded in conjunction with the other indicators, as the Gini index and the poverty line, it has not contributed sufficiently to overcoming social inequality, mainly due to a low minimum and average wages.⁸¹

⁸⁰ **Ibid**

⁸¹ As per Eurostat, the minimum wage in Bulgaria in 2016 is the lowest in the EC, or 210 euro, and one of the lowest in Europe, where it is lower only in Albania and Macedonia. The average wage, as per the National Statistic Institute of Bulgaria for the same year is 468 euro, again the lowest in the EC.

5.5. Human development Index (HDI)⁸²

This aggregate index gives the following development for Bulgaria, ranking 59th for 2014:



1990	1995	2000	2005	2010	2014
0.669	0.705	0.714	0.722	0.733	0.782

We see a slightly positive development, consistent with overall global development.

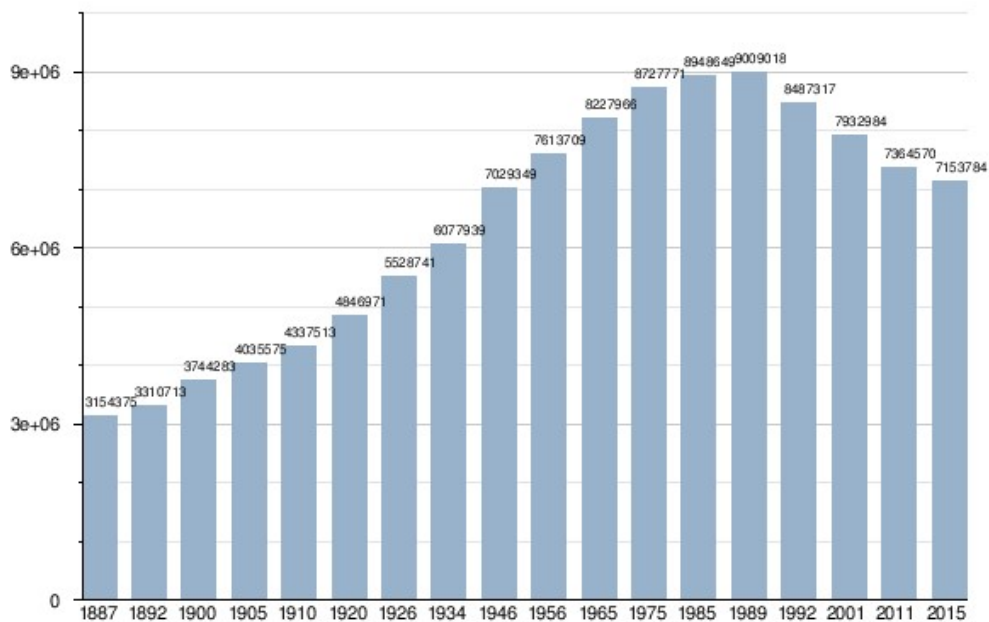
With regards to the transition and privatization, this index has a more positive trend in the years 1990-2005, after that the growth is somewhat slower. What is also important to note is that after 2005 Bulgaria is not growing faster than other highly developed countries, it is no longer effectively “catching up”.

⁸² The Human Development Index (HDI) was developed by the United Nations as a metric to assess the social and economic development levels of countries. (from 1 to 0) Four principal areas of examination are used to rank countries: mean years of schooling, expected years of schooling, life expectancy at birth and gross national income per capita. This index makes it possible to follow changes in development levels over time and to compare the development levels of different countries. Investopedia.

We may say that with regards to the privatization, this aggregated index is more neutral. It had not created a breakthrough and fast development, particularly after 2005, but also it had not created a negative trend.

5.6. Demographic dynamics in the transition and privatization

There is an ongoing debate about the negative demographic trends in the Bulgarian population, and the influence of the transition period and the privatization, as its focal point. The general picture looks like this:



It is very clear that the decline starts in 1989, co-inside with the start of the transition period. This is not enough to explain the phenomenon and correlate the transition and privatization to the population decline.

The statistics, though, are frightening. As summarized by professor Nako Stefanov⁸³, Sofia University,” the parameters of the demographic catastrophe in Bulgaria can be understood in comparison with other countries and the historical data for Bulgaria. According to the site “Population Reference Bureau”⁸⁴ the pace of decline of population in Bulgaria is the fastest in the world, comparable only to Swaziland, which is in the midst of an AIDS epidemic. Again, based on the same data, in 2012 Bulgaria is on a 190-195 place in lowest birth rate out of 207 countries, according to other sources, it is in 204th place in birth rate out of all 224 countries”. The census in 1990 gives us the number of 9 million, in 2015 it is 7,153 million or around 21% decline in 25 years.

There are three main groups of reasons for this situation:

- **Direct causes:** low birth rate (though not very different from the average in EU), high death rate, the latter also related to poverty, and mass emigration.
- The emigration requires some additional explanation. This is a phenomenon in common for all post-communist countries in transition. In Bulgaria, the estimate is that around 1,5 million⁸⁵ Bulgarians have started to emigrate massively at the end of 1989. The number is not accurate, as a lot of the emigrants still have real estate (apartments, houses, farmland) in Bulgaria and have permanent addresses there. The distinctions between permanent resident, non – resident and citizen for tax purposes and voting purposes have not yet been introduced.⁸⁶ The emigration, mainly for

⁸³ Prof. Nako Stefanov, PhD, “The demographic catastrophe of Bulgaria, parameters, reasons, perspective and alternatives” Sofia University, 2015.

⁸⁴ <http://www.prb.org/>

⁸⁵ Professor M. Mirchev, ASSA-M, texts, Invitation to sociology, Sofia 2011, ISBN 978-954-8177-53-5. Article :The emigration as an attempt at demographic and national suicide, p 1.

⁸⁶ “There are serious discrepancies in the number of voters according to the CRAS (GRAO- Department of civic registration and administrative services), the Ministry of Interior (MI) and the National statistic institute (NSI). Around 5.5 million are the issued valid identity papers (by the Ministry of Interior, for Bulgarian citizens). But, in the lists of CRAS, the voters are around 6.9 million and this is about 1.4 million more that the number of

economic reasons, has a dual effect on the population – obviously, the populations decrease by the number of emigrants and, secondly, the people that live are predominantly young, which reduces the fertility and the birth rate within the country. The emigration had three more distinct waves – immediately after the regime changes in 1989, in 1999-2000 and after the EC membership of the country in 2007.⁸⁷

At the same time, the socio-economic effects of emigration are not only negative. It certainly eases the tensions of unemployment, which is particularly high among the young. It is one of the major sources of income for the country, as the emigres – permanent or temporary – send money to their families, parents, and relatives. The amount cannot be precisely measured, but by many estimations, it is the second largest, after the Euro – funds for different EU programs, and around 3 billion USD per year.⁸⁸ These effects are considered positive if you have a purely economic and pro-globalist rationale.

- **Indirect causes** – aging population, poverty, unemployment, social inequality and lack of social security.

We can see a certain correlation between the demographic picture, the decline in population, and the transition and the privatization. This is particularly true with regards to the demographic consequences of the wave of emigration in 1999-2000,

the MI and approximately 900 000 more than the numbers of the NSI, the NSI counting the number of Bulgarian voters (citizens above 18 years of age) at 6 million. I would not call these discrepancies “dead souls”, because under this label we have two-three meanings (combined). Here in Bulgaria, under “dead souls” in the electoral lists we understand the Bulgarians, who live abroad. So let's talk about “empty volume” in the electoral lists, this volume is enormous. The discrepancy in the numbers given by the NSI and CRAS/GRAO in 2005 was 300 000 people more (in the lists of DRAS/GRAO compared to NSI). In 2009 this discrepancy is plus 600 000, in 2013 – plus 900 000 people (in the lists of DRA/CRAO compared to the NSI). “Professor M, Mirchev, Assa M, newspaper 24 hours, August 2016. NB The translation is mine.

⁸⁷ **Professor M. Mirchev, ASSA-M, texts, Invitation to sociology, Sofia 2011**, ISBN 978-954-8177-53-5. Article “The emigration as an attempt at demographic and national suicide”, p 3.

⁸⁸ Ibid

following the third and strongest wave in privatization (1997-2000), and also with regards to the effects of poverty and social inequality.

6. Privatization and social values

6.1. Starting point and definition

The notion of social values is important in understanding the complexity of any society. There are different possible definitions of social values⁸⁹, which we will not examine here, as this is not our purpose, however, we need some basic starting points and a working definition.

Durkheim defines social values as a “social fact”. According to Durkheim, the desires and self-interests of human beings can only be held in check by forces that originate outside of the individual. Durkheim characterizes this external force as a collective conscience, a common social bond that is expressed by the ideas, values, norms, beliefs and ideologies of the culture, institutionalized in the social structure, and internalized by individual members of the culture. He elaborated the cause and

⁸⁹ 1. "Values are group conceptions of the relative desirability of things" — G.R. Leslie, R.F. Larson, H.L. Gorman.

2. According to H.M. Johnson, "Values are general standards and may be regarded as higher order norms".

3. "Values are assumptions, largely unconscious, of what is right and important"— Young and Mack.

4. "A value is a belief that something is good and worthwhile. It defines what is worth having and worth striving for."—Michael Haralambos.

5. "Values are general conceptions of "the good", ideas about the kind of ends that people should pursue throughout their lives and throughout the many different activities in which they engagz".-Peter Worsley.

6. Schwartz and Bilsky generated a conceptual definition of values that incorporates the five formal features of values -see Schwartz and Bilsky (1987, 1990). Values (1) are concepts or beliefs, (2) pertain to desirable end states or behaviors, (3) transcend specific situations, (4) guide selection or evaluation of behavior and events, and (5) are ordered by relative importance. Values, understood this way, differ from attitudes primarily in their generality or abstractness (feature 3) and in their hierarchical ordering by importance (feature 5) (cf. Bem, 1970, and Rokeach, 1973, but contrast Levy and Guttman, 1974). In addition to the formal features of values, Schwartz and Bilsky (1987, 1990) proposed that the primary content aspect of a value is the type of goal or motivational concern that it expresses. Shalom H. Schwartz, UNIVERSALS IN THE CONTENT AND STRUCTURE OF VALUES: THEORETICAL ADVANCES AND EMPIRICAL TESTS IN 20 COUNTRIES

7. The Inglehart–Welzel cultural map of the world, based on World Values Survey data.

effects of weakening group ties on the individual in his two works, *The Division of Labor in Society* (1893) and *Suicide* (1897)”⁹⁰

Durkheim’s approach, often referred to as “functionalist”, clearly shows the need of coercing society into some functional form of solidarity and social cohesion and avoiding “anomie”, or, very generally speaking, lawlessness and breakdown of social norms, particularly in times of transition.

Max Weber, who puts more emphasis on the motivation of individual behaviors and “social actions” and the drift from traditional to rational actions famously defined the protestant ethics as a factor for the emerging of capitalism in *The Protestant Ethic and the Spirit of Capitalism*, in line with his thinking that cultural values have an enduring and somewhat autonomous influence on society. After careful study, Weber came to the hypothesis that the protestant ethic broke the hold of tradition while it encouraged men to apply themselves rationally to their work (Gerth and Mills 1946). Calvinism, he argued, had developed a set of beliefs around the concept of predestination. It was believed by followers of Calvin that one could not do good works or perform acts of faith to assure your place in heaven. You were either among the "elect" (in which case you were in) or you were not. However, wealth was taken as a sign (by you and your neighbors) that you were one of the God's elect, thereby providing encouragement for people to acquire wealth. The protestant ethic, therefore, provided religious sanctions that fostered a spirit of rigorous discipline, encouraging men to apply themselves rationally to acquire wealth (Aron 1970; Coser 1977). Weber studied non-Western cultures as well. He found that several of these pre-industrial societies had the technological infrastructure and other necessary preconditions to begin capitalism and

⁹⁰ Elwell, Frank W., 2003, *The Sociology of Emile Durkheim*. Rogers state university; <http://www.faculty.rsu.edu/users/f/felwell/www/Theorists/Durkheim/index2.htm>

economic expansion, however, capitalism failed to emerge (Gerth and Mills 1946, 61). The only force missing were the positive sanctions to abandon traditional ways. "By such a comparative analysis of causal sequences, Weber tried to find not only the necessary but the sufficient conditions of capitalism" (Gerth and Mills 1946, 61). While Weber does not believe that the protestant ethic was the only cause of the rise of capitalism, he believed it to be a powerful force in fostering its emergence (Aron 1970; Coser 1977; Gerth and Mills 1946)."⁹¹

Karl Marx places social values in the "superstructure" of society, in his understanding of "base" – "superstructure", where the base refers to the forces and relations of production—to all the people, the relationships between them, the roles that they play, and the materials and resources involved in producing the things needed by society. Contrary to Max Weber, Marx argues that economic development brings pervasive cultural changes. The superstructure grows out of the base, including culture, ideology, values, beliefs, the state, law and political apparatus and other institutions, and the superstructure reflects the interests of the ruling class that controls the base. Marx, particularly in his later works, emphasizes on the dialectical interaction between the two in which interaction the base has a leading role. Following the logic of Marx, social values are a part of the social superstructure, formed or modified under the influence of the base, but they have a certain autonomy and can exercise their own influence on society.

The reason why we briefly engaged in quoting the notions of social values as per Durkheim, Max Weber and Marx is to show that despite differences in the

⁹¹ Elwell, Frank, 1996, "Verstehen: *The Sociology of Max Weber*. Rogers state University; <http://www.faculty.rsu.edu/users/f/felwell/www/Theorists/Durkheim/index2.htm>

interpretation of the notion, the social values objectively exist, they are mostly culturally defined, and are a very important part of fundamental social theories.

We can settle with a brief definition: Social values are culturally defined standards held by human individuals or groups about what is desirable, proper, beautiful, good or bad that serve as broad guidelines for social life.⁹²

In addition, there are four other aspects of the sociological concept of value. They are: (1) values exist at different levels of generality or abstraction; (2) values tend to be hierarchically arranged (3) values are explicit and implicit in varying degrees, and (4) values often are in conflict with one another.

6.2. Social values in Bulgaria

Bulgaria has a complicated and turbulent history. The new Bulgarian state starts in 1878 after about 500 years of Turkish domination, in this period the Bulgarians being a part of the Ottoman empire. This is a historically long period of time, during which the Bulgarians maintained their national and cultural identity under complex circumstances. In the period 1878 – 2015 Bulgaria went through three major changes: 1. Creation of the Bulgarian national state and continuous struggle for ‘unification’, which included the Balkan wars 1912-1913 and, to a great extent, the participation of Bulgaria in WWI. 2. Regime change and incorporation of Bulgaria into the “Soviet bloc” in eastern and Central Europe 1944 to 1989; The transition to democracy and free market economy from 1989 until today, including joining the EU in 2007.

⁹² Frank W. Elwell, *Socio-cultural systems*, Principles of structure and change, 2013, ISBN 9781927356203

Those are radical political, economic, social and cultural changes, influenced by external factors and absorbed by the Bulgarian society. Without any doubt, they had a profound effect on social values in Bulgaria. The first in-depth study of the social connections and social values is done by the Bulgarian sociologist Ivan Hadjiiski, who published in 1940 a study “Lifestyle and Soul of the Bulgarian People” This study, fundamental for the creation of Bulgarian sociology, for our purposes gives us some understanding as to where the Bulgarian society has been in 1940 as a starting point for the society to be again transformed in 1989. Among the main conclusions of Hadjiiski are the ideas of the patriarchal and traditional character of the Bulgarian society, and the primary importance of traditional values such as family, work ethics, regulated social behavior.

According to this study, around 80% of the Bulgarian population after 1878, i.e. after the creation of the modern Bulgarian state, were rural population, engaged in agriculture.

In 1944, at the starting point of regime change and “Soviet socialism” this percentage is 78%, practically the same. In his book “The Bulgarians – a sociological glimpse”⁹³ the author, professor Mitev, talks about “delayed modernization and existing `continuity` of traditional values in the first period – 1878-1944. However, the three mentioned periods are distinct and turbulent.” For a period, a long period if compared to human life, but historically a very short period, Bulgaria existed in three different states: The Kingdom of Bulgaria (monarchy), The national republic of Bulgaria (socialist) and the republic of Bulgaria (democracy, present). These are based on three different ideas: national unity, communism and finally the European project. Bulgaria

⁹³ Professor Peter Emil Mitev, `The Bulgarians – sociological glimpse, 2106, Iztok-Zapad, ISBN:978-619-152-861-5

was involved in bloodshed “hot” war (WWII) and an exhausting “cold war”.

Bulgarian society was deeply shaken by regime changes and geopolitical shifts on two occasions. Even greater is the distance between the everyday life then, the small shops of the time, compared to the modern shopping complexes. When it comes to communication – previous periods were marked by the ownership of a home phone, usually an exception, compared to a cell/smart phone, which is now the standard.”⁹⁴

The same study shows that in the 50s and 60s, a very rapid process of modernization and urbanization took place. Around 4,5 million moved to the cities, more than a half of the population. Yet, there was continuity in the values. If we refer to the Inglehart-Welzel Cultural Map of the world⁹⁵, created on the basis of x-axis: Survival values versus self-expression values and y-axis: Traditional values versus secular-rational values, we get for Bulgaria the following picture:

⁹⁴ Ibid

⁹⁵ Ronald Inglehart; Chris Welzel "The WVS Cultural Map of the World, 2010



It worth noticing that in terms of Secular-rational values the Inghelhart map places Bulgaria almost on almost one level with Germany and Denmark, and near the average for Protestant Europe, and at the same time it is very high in terms of Survival values, similar to the Islamic world.

There is an on-going debate whether this modernization period (1944-1989) was good or bad for the country. However, when it comes to social values, even researchers of different views state, that the modernization and urbanization was a cultural shock, which historically confused the Bulgarians. For example, a very interesting study by M. Garvanova⁹⁶ states that “The main goal of the Bulgarian society in the present situation of social change is to complete the project of its modernization, which

⁹⁶ **Transformation in the values of the contemporary Bulgarian**, Publisher : “Za bukvite”, Sofia, 2013, ISBN: 978-954-2946-74- NB The translation is mine.

began after the Liberation (from the Ottoman empire in 1878) and which project was forcefully interrupted by the state socialism and (the Bulgarian society) has to pass on to a post-industrial phase of development. In other words, it is necessary to walk to the end of the path from traditional, closed, pre-modern society to the values of open and information society. The modernization processes during totalitarian – industrialization, urbanization, mass education, etc. do not have a foundation in the liberal individualism – entrepreneurship, autonomy, freedom, risk, responsibility, rationality, and mobility, but on a forcefully established forms of social solidarity, which imposes etatism, collectivism, paternalism, social levelling and conformity. Socialism as a social structure is successful in the initial period of forceful modernization and extensive economic growth, but it is ineffective when it comes to the new intensive forms of development, related to IT or high technologies. (Vladimirov, 1988). The large scale crisis, which started gaining traction in the 80s, turns into a clear “anomie“ after 1989).”

On the other hand, sociologist highly critical of the neoliberal transition, as professor Ivo Hristov⁹⁷, do agree that the modernization period of 1944-1989, in terms of social structure and social values, does have some negative effect.

“Regardless of fully developed professional groups with solid expertise, urban population, and modern social infrastructure, the etatic model of socialist modernization (imposed) on the Bulgarian rural society resulted in a very definite imprint. The Bulgarian modernization, which followed the Soviet model, had a negative additional effect –the creation of a population, which was not a master, a

⁹⁷ Sociology department, Sofia University, Plovdiv University.

subject of its own fate. Its social status was the result of forces, situated outside and above it, it was an object and not a subject of the historic process. This did create a population politically passive, socially infantile and deprived of critical senses for social change. In brief, regardless of its incontestable achievements, the Bulgarian socialism produced a social corpus, which was the object and not the subject of its own life.”⁹⁸

What is more, the “dual character” of socialist property, which we already mentioned, officially belonging to everybody, but unofficially “nobody’s property” contributed largely to mass corruption and fast deterioration of work ethics and the creation of “shadow” networks for redistribution of wealth in an economy of a chronic deficit.

6.3. Social values after the privatization

The privatization, as we describe it here in three chronological stages (VII, 2) was, among other things a cultural shock for the Bulgarian society. Not the very fact of the privatization, but the way it was conducted, favoring some and depriving of status too many, created a different attitude to social values. Obviously, the great shift was from collectivism to individualism and entrepreneurship, and to understanding money as an indicator the highest value, regardless of the means.

At the same time, the process obviously came in conflict with some of the traditional social values. This process “Is determined by the disintegration of the two basic models in the development of the Bulgarian characterology. The first is dominated by the traditionally patriarchal features in farmhand and artisanal Bulgaria where the national preservation is the main cause; the other is based on political and ideological

⁹⁸ Professor Ivo Hristov, Sofia University, interview, “Memoria de futuro” magazine, “The character of the crisis” 15.07.2015.

values which represent the Bulgarian mindset in the Socialist period. The spiritual vacuum which appeared after the political transformations in 90-th precipitates a crisis in the national mindset and mentality. So, we would talk about the appearance of another, third, model, in the development of the Bulgarian psychology, based on the neoliberal capitalism and new information technologies. It contains the consumer, consumption psychological attitude which denied the traditional Bulgarian virtues like industriousness, patriotism, family tradition, frugality, solidarity, good neighborliness, and hospitality.”⁹⁹

What are the social values after the privatization, how were they transformed, compared to the two previous periods? We can find some answers in the results of the Fourth wave of the European Values Study. The research program was initiated by the European Value System Study Group (EVSSG) in the late 1970s and has emerged as a well-established network of social and political scientists aiming at high standards in data creation and processing. It is now carried out under the responsibility of the EVS Foundation. From 1981 to 2008, four waves of surveys were conducted in European and other countries. These surveys explore value differences, similarities, and value changes among citizens of the EVS member countries.

The comments and interpretations to follow, with some abbreviations, are from the study of the above results of professor Georgi Dimitrov¹⁰⁰

“Isolated existence. The Bulgarians as a whole are valuing family very highly: 86% of the respondent (only 1% have not responded) place it as priority No1. They are not an exception –all the Europeans value family very highly. This value is slightly

⁹⁹ **The Virtues of Bulgarians: paradigmatic transformations .Assoc.Prof Ivaylo Hristov** - University of National and World Economy, Media and communications magazine, No. 28, July 2016.

¹⁰⁰ **Prof. Georgi Dimitrov, “European civilization process” selected studies**, Sofia 2012, Sofia Unoversity editions, ISBN 9789540732718, pp 391-415, “ The social in our way of life”

increasing; however, it practically stays at the same levels for the past decade. The problem is not that this value is high. The problem is that it is opposed to everything and everybody else around us.¹⁰¹ For example – the value of friends is 2 times lower, the value of the people around – from the same neighborhood or same town is practically absent, even more regarding other Europeans or humanity as a whole.

The results are startling: the strength of the correlation between social detachment and social distance is a common pattern in understanding the world.

Universal mistrust. The answer to the direct question: “Do you think that most people can be trusted or we have to be very careful with them?” : 82% declare mistrust and 18% - trust.

Another question: “Do you think that people should mind their own business, without being interested in the behavior of others” gives us the following table.

Extent to which you agree with the above statement	Answer, percent%
Strongly agree	16.4
Rather agree	32.1
Agree to some extent	23.0
Not quite in agreement	19.4
Do not agree at all	4.3
Do not know	3.7
No answer	1.1

¹⁰¹ Ibid

These answers corroborate the answer to the previous question, though in a more mild form. In a summary, the agreement with mistrust and, in a way, with social isolation, is two times higher than the disagreement, and in the strongest form (strongly agree) is about 4 times higher than the strong rejection (Do not agree at all)

Moral indifference and attitude to religion

The empirical picture does not leave any doubt, that for the Bulgarians the moral norms are not very important. The results make us think of Max Weber's analysis that religion, also and particularly the necessity of moral norms occurs in the complex urban environment, where the interaction among mutually dependent people, who do not know each other personally, creates a need for ethical rationalization, in order to have a steady strategy of behavior.

The following data is quite clear – the Bulgarian respondents are, to put it mildly, morally disengaged.

The problem in those results is not that the a-moral point of view is slightly predominant. It is that the distribution of the respondents is practically following the normal statistical distribution, which means, that the Bulgarian society most probably does not have an opinion on moral norms, actually the results suggest the lack of such opinion.

Value preference - universality of moral principles	Answer, %
There are absolutely clear rules about what is good and bad, these rules apply to everybody, regardless of circumstances	32.2

There are absolutely clear rules about what is good and bad. However sometimes, under special circumstances, the deviation from the rules is justified.	31.6
There could be no clear rules about what is good or bad. What is good or bad depends entirely on the circumstances of the moment.	36.2

About the attitude to religion – we can also refer to Max Weber’s claim that Christianity has spread in parallel with the necessity of ethical regulation of the complex social life (Weber 1992). Or, in other words, we can quite safely assume that the religious attachments of the majority of the Bulgarians are limited more to the formal, external, to the ritual and to belonging to some form of confession, rather than to deep internal beliefs. The data completely confirms this assumption, again we have a normal statistical distribution, the Gauss curve, which almost repeats the same distribution with regards to the question of moral principles.

To what extent religion is important to you?	Answer, percentage%
Vry important	17.6
Quite important	34.2
Not very important	31.5
Not important at all	11.9

I do not know	3.1
No answer	1.8

Tolerance to transgressions

The strong individualism can be seen in the attitude to transgressions, or violations of publicly accepted norms of behavior, particularly towards specifically constituted and written norms:

Answer: “This is never justified” for the following actions	Answer, %
To demand help from the state, when you are not entitled	66.6
Tax evasion	66.1
Cash payment in order to avoid tax	66.5
Using public transport without paying	66.7
Lying to protect self-interest	77.6
Accepting to bribe an official	80.0
Taking a stranger's car “to have a ride”	89.8
Smoking marijuana or hashish	83.9

Interesting to note, that the use of light narcotic substances is less tolerated than breaking the norms of public order, and infringement against private property shows

25% higher intolerance than infringement against the public interest, like tax evasion, or other of the kind.

Attitude to institutions

The question is: What are the priorities of the state in the next 10 years?

Maintaining the order in the country	54.9
Giving more weight a to the opinion of the people in the process of taking important government decisions	19.4
Fighting price increases	23.6
Protecting the freedom of expression	1.3
I do not know	0.2
No answer	0.5

The amorality in mentality is turned into a public problem around the lack of order, but this is far less than personal engagement with it. This data shows that Bulgarians understand social order like something external, something due, but not that much as personal engagement.

The above analysis goes on to note the low level of participation in non – governmental organization, as well it points out a low level of trust in the political parties and in the electoral process. The author notes, not without reason, that his interpretation and presentations of the 4th EVS survey, given within the project “Building of civil consciousness about our European responsibilities”, managed by

the “Trust for Civil Society in Central and Eastern Europe”¹⁰² have been criticized as too pessimistic.

We consider this analysis as a good example of the effect of the deep cultural change and a change in moral values, resulting from the transition and privatization.

The social values, following the three stages of privatization, have without any doubt changed and this shift is continuing. The trend is towards individualism, entrepreneurship, less patriarchal and closed society and more towards an open society, and all those trends are positive. At the same time, the deep resignation towards the method of privatization, the fact that the results of this process are not quite accepted as legitimate are creating a moral void. It is good to be rich, but is it good to be rich at any cost? A survey by the agency “Mediana” in 2004¹⁰³ shows, that only 15% of the respondents think one can get rich in a fairly honest way, 14% do not know what to think, and 71% consider that there is no honest way to wealth. In terms of work ethics, this is as discouraging as the bitter experience of socialism. As a matter of fact, the constitution of social values in the abruptly changed social order is lagging far behind the economic and political results and this creates a dangerous rupture in the social fabric of the Bulgarian society.

7. Privatization and the new social structure, social diversification.

7.1. Major trends

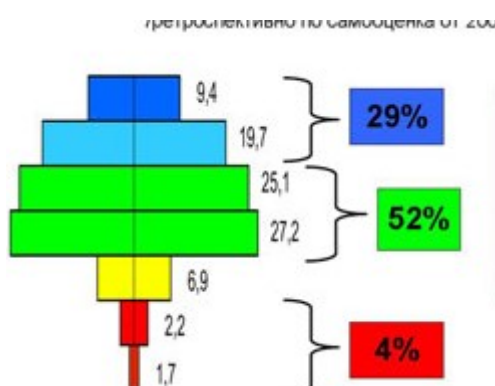
The transition and its focal point - the privatization – had as one of its major results the creation of a new social structure in Bulgaria. It is only natural, as the whole

¹⁰² <http://www.ceetrust.org/about-us.html>

¹⁰³ Agency “Mediana”, Kolev, 2004, 12.

essence of the transition, which was formalized in the three waves of privatization (1989 – 1994; 1995-96 and 1997-2001) created new groups with regards to property, wealth, role in society and status.

As mentioned in point V, 2.2 “Society, social groups and actors” the society at the starting point in 1989 was relatively homogeneous. It was characterized by a large middle class (High – around 15%, including 1-2% elites,-not on the chart, Middle-class group – 81%; Lower- 6.9%, poor – 4%¹⁰⁴;



The hopes at the beginning were that the transition would create a new economic model and, somehow, keep the stratification structure, particularly the large segment of the middle class. The understanding of the collective “West” and the projected picture of it as a successful group of countries with high standard of living, a society of the prosperous middle class, were pretty convincing.

Bulgaria, like some of the other countries of Eastern Europe, did not fall into that pattern. Certain countries did, or at least they are making a properly god effort, like Poland and the Czech Republic. In Bulgaria, though, the privatization did not lead to fast – track inclusion in the new (for the country) international division of labor.

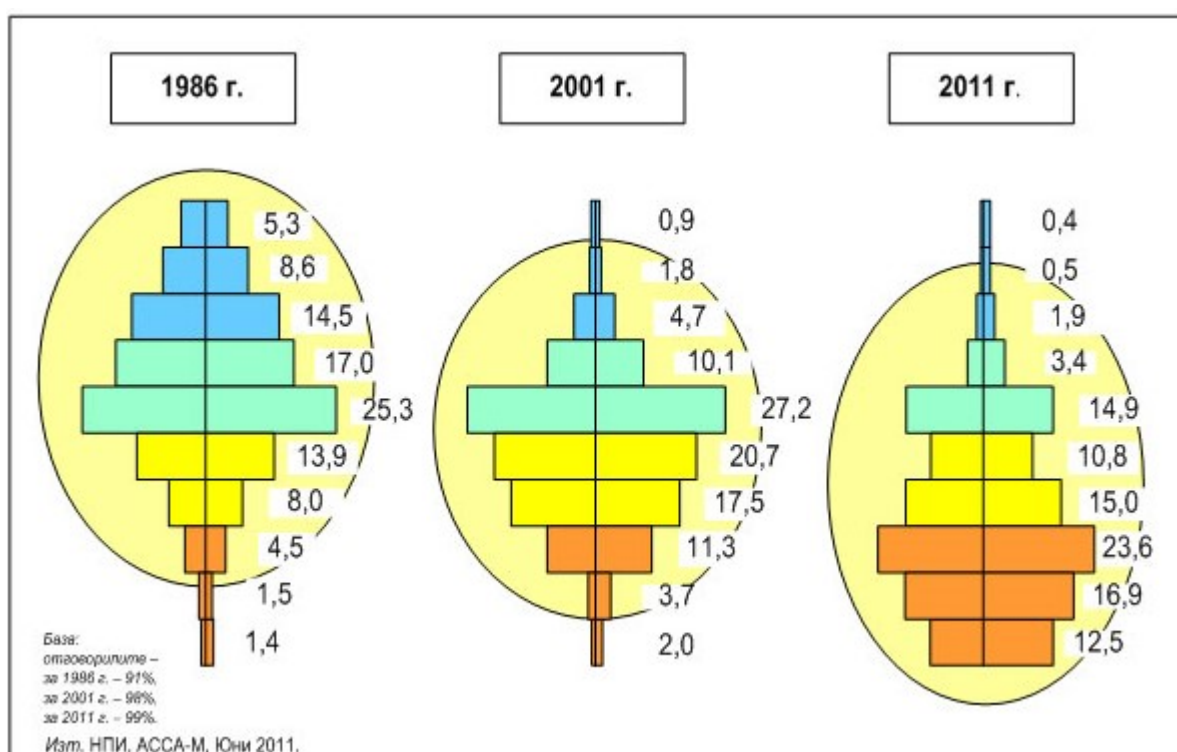
Many of the privatized assets were quickly sold, but not as working entities – they

¹⁰⁴ **The Bulgarian ethnic model, prof M Mirchev**, Agency ASSA M, Sofia, 2011, p. 206-240. ISBN 978-954-323-866-8. , profile at the beginning of the 80ies.

were liquidated for a fraction of their previous worth. This created a group of wealthy people, engaged mainly in services, and a large percentage of declassified population, or a population with constantly lowering income and status. The process was particularly noticeable after the third privatization wave 1997-2001.

A unique study on the stratification model and the new social structure was conducted by the sociological agency ASSA-M and the leading researcher of the agency professor Mihail Mirchev.¹⁰⁵ It includes an estimation on 10 scale level, similar to the Gini. There are around 9000 respondents for the survey.

STRATIFICATION PROFILE - BULGARIAN POPULATION AGE 18-70¹⁰⁶



Base of responses – 1986 – 91%; 2010 – 96%; 2011 99%

¹⁰⁵ Member of the FEPS Scientific Council Foundation for European Progressive Studies

¹⁰⁶ “Social differentiation in the years of transition and crisis” 1990-2008;2008-2012, prof M. Mirchev, Agency Assa M, ISBN 978-954-2982-03-6.

It situates the responder, as per his/her answers, in one of the deciles, starting at the top 10% and moving down to the next, 2nd 10%, etc.

This is a pretty clear picture and the trend is more than obvious.

Below we present the stratification profile as per the three major ethnic groups in the country – Bulgarians, Turks, and Roma.

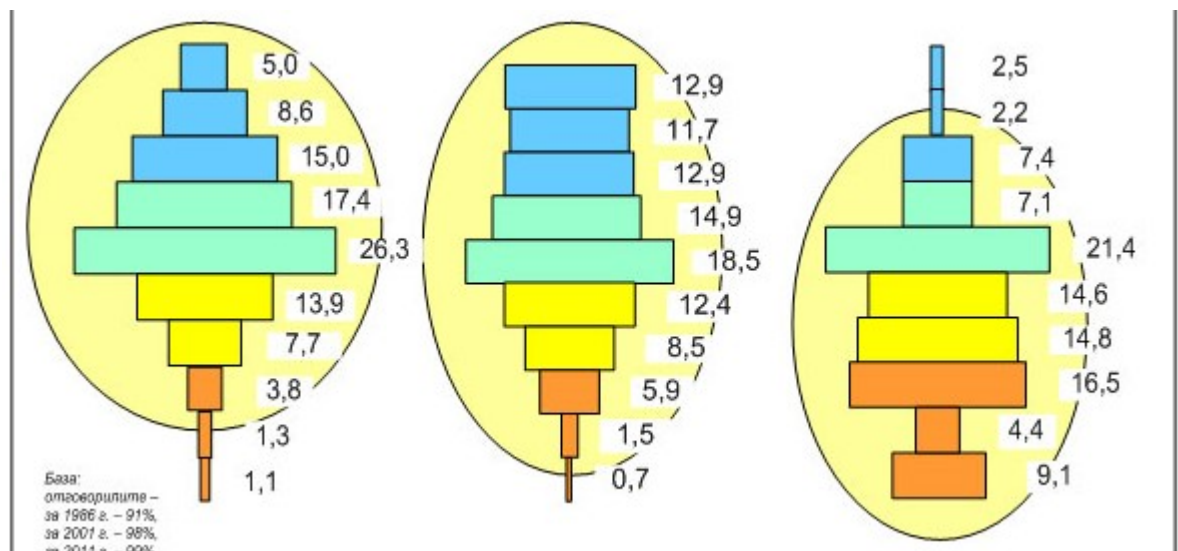
According to the 2011 census, the Bulgarians are 76, 9%, the Turks – 8.0%; Roma – 4.4% (other ethnic groups – 10.7%)

STRATIFICATION MODEL AS PER MAJOR ETHNIC GROUPS 1986¹⁰⁷

Bulgarians

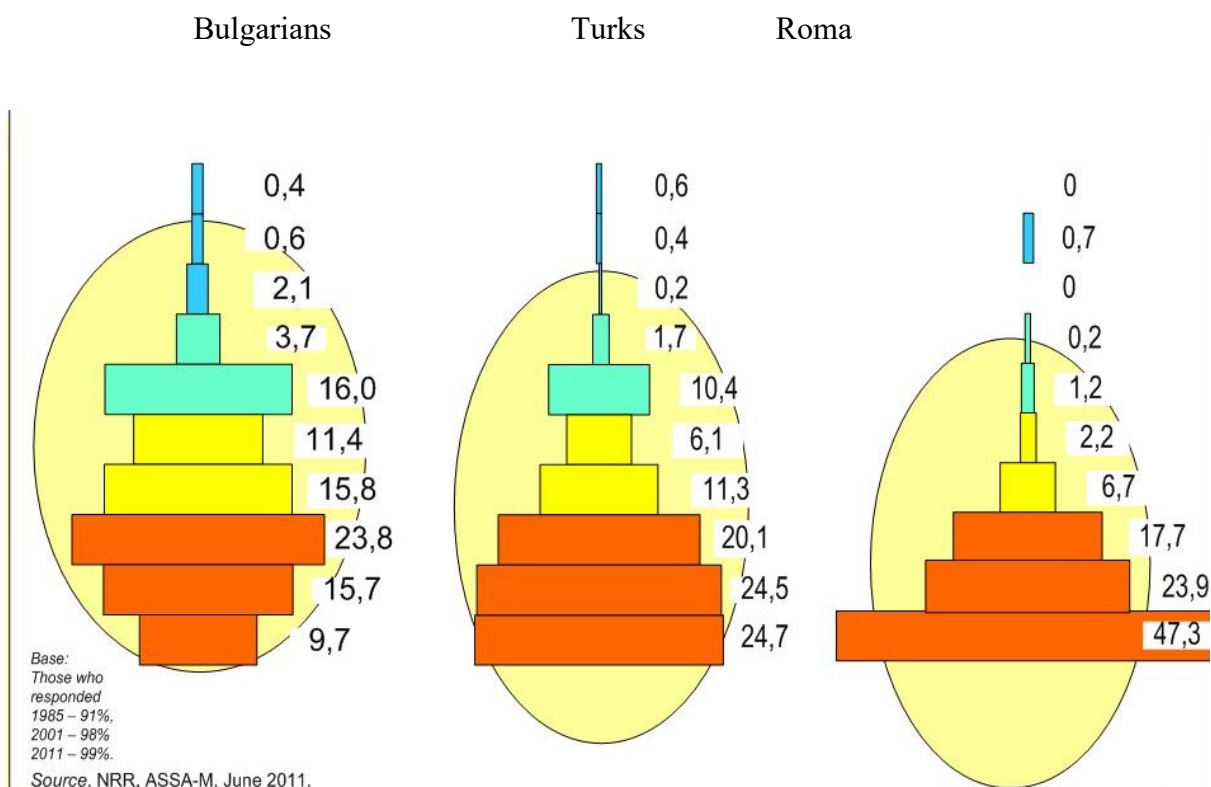
Turks

Roma



¹⁰⁷ Ibid

STRATIFICATION MODEL AS PER MAJOR ETHNIC GROUPS - 2011



This gives us the general trend, plus an ethnic component to it.

The major result is the practical destruction of the middle class, which slid down and around 78% in 2011 is in the lower 5 deciles. Actually, we witness a completely inverted pyramid from around 80% in the middle class in 1989 we have 80% below middle class now. The other obvious result is the increase of the poor, around 52% in the lower 3 deciles.

Curiously enough, there is a substantial decrease of the rich and elite from 5.3% in the highest decile of 0.4%; from 8.1% in the second decile to 0.5% and the 3rd decile from 14.5% to 1.9%.

Another result is the rapid worsening of the conditions of ethnic Turks and particularly of the Roma population, which is massively below the poverty line.

7.2. The new groups

7.2.1. The new elites

Most of the new elites¹⁰⁸ started to emerge immediately at the end of 1989, and at that time they did rise, with one exception, from some natural or organic growth. The exception is the entrepreneurs, who were operating in the “shadow” economy and were thriving on the deficits since the 70s. There were a few “waves” of new elites, following the privatization waves and, the change of political power in the country.

Why was the political power so important? The characteristic in common, which the

¹⁰⁸ We use the term not in order to look into elitist theories, like those of Pareto and Mosca, Michels or Mills, but to define the elite as a group of people, who have access to social resources, including the areas of power, wealth, culture, knowledge, etc. , in the sense that Bourdieu defines them: Elites are those within a “field of power” who have considerable social, economic, cultural, and/or symbolic capital. Bourdieu conceptualizes elites relative to the power they have over others (to define tastes through consumption, association, or disposition) and holds that among elites there is a constant struggle for the relative strength of the resource they most firmly control.

elites have is that they were “created” in the 90s by different groups in the political power by a very simple and efficient way. Nobody had, at that time, capital, to start operations or to privatize. So the access to credit was one of the two conditions to begin career in business. The second condition – “high protection” from politically powerful figures, both against organized crime, starting to emerge them, and – curiously enough – law enforcement, as most of the operations were illegal or on the brink of illegality. For sure the tax system was created in such a way, that following its legal requirements did not leave much for the business to survive.

This was a particular situation and most of the new businesses created came into life to serve the economic interests, as front men, of political parties or different powerful people, who could not personally be exposed in owning assets. Some of those new businessmen survived, physically and economically, and even emancipated themselves in the process, most of them did not.

The fact of the matter is that each new government, coming to power, was creating its new business elites. Bulgaria has had 10 different governments in the past 25 years, plus some interim governments in-between elections, so it is easy to imagine the mess. This situation has calmed down a bit after the entry of Bulgaria into the EU in 2007 but still, the genesis of the new elites generates record levels of corruption among the countries of the EU.

One of the major problems such a development created was that among the new elites there was a fairly large amount of people, who did not have any management skills or potential, but they had a very speculative and risky approach to business. There was no transparency at all and the effectiveness of the new elites, if we have to judge by the results of the privatization, was very low. Not in the sense of money gained, but in the sense of economically sound units functioning still today.

That is why a lot can be explained by the political power struggle in Bulgaria, not only as an ideological confrontation, which surely exists but also as a struggle for the chance to effectively manage the privatization.

The other regrettable characteristic is that the process of privatization was by far more lucrative than any economic activity, in any imaginable field. This created an elite much more active in redistribution than in creation.

The generation of elites follows, roughly, the stages of privatization we described, which also coincide with some of the major political changes in the country.

“ For the majority of Bulgarians, the business elites in the country are born in sin. They are partly the nomenclatura of the late socialism, the credit millionaires, the people that could transform political power into economic power. The majority of Bulgarians blame the “mass privatization”, conducted by the socialist government in 1994-96, which “mass privatization” had to transform all the population into shareholders, but in fact concentrated enormous economic resources in the hands of few irresponsible people, (they blame) the late market privatization of the(right-wing) government in 1997-2001, which gave so many advantages to the workers’/managers companies. Instead of reviving the enterprises, instead of attracting foreign investors, the new owners de-capitalized them, causing unemployment, emigration, and enormous regional disproportions”¹⁰⁹

7.2.2. Organized crime

Regretfully, organized crime originated at the beginning of the transition and participated actively both in the privatization and the genesis of the new elites. There

¹⁰⁹ **The producer of possibilities - “The-Image-of-the-Entrepreneur-in-Bulgaria”** group of authors, Institute for market economy, Sofia, March 2013, ISBN 978-954-8624-34-3; p.12; NB: the translation is mine.

are a few reasons for that. The previous regime, though much less tolerant, could not eradicate crime. But crime in the sense of organized social group linked to political, economic power, allegedly connected to judicial structures and law enforcement agencies, emerged in the beginning of the 90s.

One of the reasons is that there were some social groups that were declassified at the beginning of the transition. As a lot of them were professional sportsmen, who under the new conditions were left outside of government support. The same was valid for a part of the former secret services employees. Allegedly, again, they were used by powerful groups to control privatization and regulate different economic schemes. We have already mentioned in the stages and types of privatization, how the first stage used the “entry – exit” scheme, decapitalizing state enterprises by straw companies, which were selling the initial material at extremely high prices, and were buying the final product below cost. Such schemes could not legally operate, of course, but somebody had to control and regulate the different interests of the participants. There comes organized crime. It would regulate for a fee with the intention of getting full control. In a similar situation were the services for debt collection, particularly under conditions of very high inflation. In courts it would take 2-3 years to get a verdict, if any, as the legal system needed time and was struggling to adapt to the new realities. There was a huge niche for organized crime as debt collectors. Anywhere, where the state abandoned its functions and its “monopoly on violence”, organized crime stepped in. We are not talking even about the really “black” areas, as drugs, prostitution, and smuggling (including huge profits during the war in neighboring Yugoslavia). All in all, organized crime became a huge factor in the transition and, particularly, in the privatization. In the years since 1990, there are

more than 150 killings ¹¹⁰ of famous business figures, allegedly somehow connected to organized crime. There are two court sentences effectively pronounced on those alleged professional killings. The victims include top businessmen, bankers, sometimes other public figures, like the former prime minister Lukanov, whose government started the transition in 1990.

The effect of organized crime is dual. Firstly, it became an active and important player in many business dealings, gained economic power, and influence. Secondly, particularly in the years 1990 – 2007 it practically destroyed the market for the small and medium enterprises through racketeering and other interventions.

The problem has somewhat become less acute, after 2007, and the entry of the country in the EU. More probably, after the third way of privatization, there is less to be distributed, and the capitals of the main players in this field have now been legalized.

7.2.3. **The new Bulgarian entrepreneur.**

In April 2012, the Bulgarian sociological agency “Alfa research” in conducted a detailed survey on the image of the entrepreneur in Bulgaria. The result is a rather controversial picture, as presented by Mrs. Boryana Dimitrova, a sociologist from the same agency.¹¹¹

- “ A high level of mistrust towards the entrepreneurs, and worsening image during the last years.

¹¹⁰ **Report of the EU on organized crime in Bulgaria** actually quotes the number of 173 killings from 1990 to 2007

¹¹¹ **The producer of possibilities - “The-Image-of-the-Entrepreneur-in-Bulgaria”** group of authors, Institute for market economy, Sofia, March 2013, ISBN 978-954-8624-34-3; p.12-14; NB the translation is mine

- Controversial attitude towards specific aspects of the image and everyday work of the entrepreneur: positive attitude of his personal activities - hard work, risk taking, and negative - about his financial and other assets (seen as neither legal, nor moral)
- The result of the entrepreneur's activity – mainly creation of jobs, goods, and services and payment of taxes - this is positive, while the means to this result, both as origins and everyday practice – negative.
- A lot of the negative characteristics of entrepreneurs are shared not only by mass public opinion but also by the private owners. Between 40 to 60% of them think that entrepreneurs are interested only in money, that entrepreneurs break moral norms, that their wealth has been created during the breakdown of socialism, that they do not care about the environment, etc. Or, the self – identification of this part of the group is not able to have a positive self – description. This phenomenon also needs to be explained.

Besides the historical, psychological and other reasons, we may want to point out a few sociological factors.

Weak modernization and competitiveness of the Bulgarian economy, social differences without the existence of stable and substantial in numbers middle class. The economic reforms in Bulgaria started late; there is a lack of investments, no technological sectors with higher added value, inefficient agriculture, too many regulations and barriers for the small and medium enterprises – all this leads to loss of social and economic status for a big portion of the people in Bulgaria. Bulgaria is last at income per capita in the EU. Buying power and standard of living are relatively low, even in the years of growth (2002 – 2007). For more than 20 years of transition, we did not see the emerging of a stable middle class. Social surveys indicate, that the

majority of the Bulgarians see themselves at the bottom of the social ladder.

Logically, since the entrepreneurs have not contributed to the increase of revenues and creation of a middle class they do not have the right to a positive attitude and positive public opinion: entrepreneurship, on the whole, is not seen positively by the larger part of the population.”

The above survey seems to confirm our statements, that the class of entrepreneurs or economic elites, created in such a short time by the privatization is not necessarily economically or socially adequate and may be better at redistribution, than at any production and creation.

7.2.4. The new poor

We have touched upon the subject when we were describing the new stratification of the Bulgarian society, we mentioned one of the major results of the transition and privatization is the reversing of the social pyramid: If we had at the beginning of the process, 80% in the middle class, i.e. above the fifth decile of the model we offered, and all the rest were 20%, below and above, we now we have 80% in the low 5 deciles and all the rest is the 20% above. This huge and alarming percentage of people in the low 5 deciles is formed mostly, exclusively by the former middle class which is sliding down.

In this sense, we have already given a basic explanation of the phenomenon and do not need to repeat ourselves.

But at the lower end of the new poor and sometimes below it, we see two subcategories, which are new to the Bulgarian society and which we think we should mention separately: the working poor and the so-called “We gave up hope”, or practically non-participating in any productive activity people.

a/ The working poor

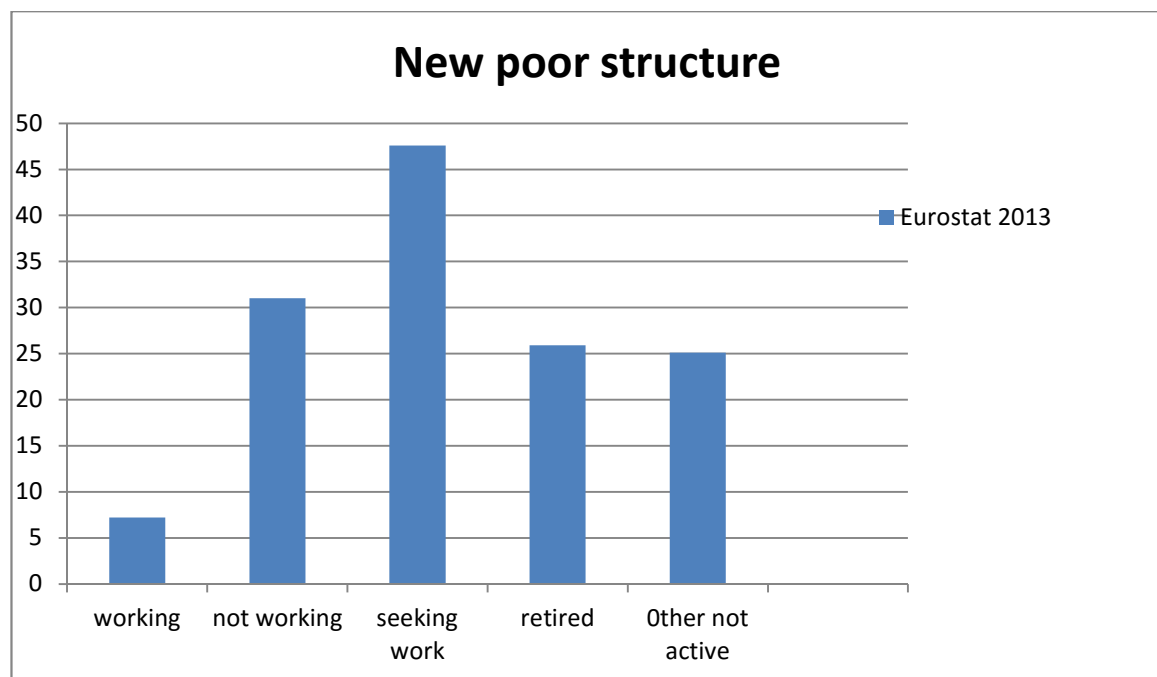
The working poor is a new phenomenon in Bulgaria, starting in 1990. That is why we will look at it in some more detail. Those are people, who work at or around the minimum wage, or they work for about 230 euros a month. Out of this, they pay taxes (Bulgaria has a flat tax rate, 10% across the board, regardless of income), they pay VAT on consumption of any kind, they pay their petrol at the high end of the prices in the whole EU, they pay rent, facilities, etc. Living within these means is extremely challenging.

There is no agreement as to the number of these people, though the official statistics counts them at 170 000, or 6-7% of the working force, engaged at the full time.¹¹²

According to the Bulgarian syndicates “Podkrepa,`` they are around 600 000.

The discrepancy is due to the fact that the NSI counts only the full-time workers.

¹¹² NSI – national Statistics Institute, Bulgaria.



Relative share of the poor as per economic activity

Working poor	Not working	Seeking work	Retired	Other
7.5%	31%	47.6%	25.9%	25.1%

The problem with the working poor is at least two – fold: firstly, it persists, starting in 1990 and not giving any signs of slowing down, on the contrary, which shows that the economy and the state are not dealing with the problem. Secondly, there is a heavy motivational problem for the working poor, who are near the category of people receiving the state minimum guaranteed income.

b/ the second category is the people, who gave up looking at work, the so-called “Discouraged”.

For 2015, Eurostat gives that number at 232 000 for people who can work but are not looking for a job. This is also a new phenomenon, starting with the transition in 1990. Part of these people is “discouraged”. As per this type of unemployment, Bulgaria is in the third position in the EU, after Italy and Croatia for the last year.

Particularly troublesome is the fact, that this type of unemployed is particularly high among the young. As per the Ministry of Sports and Youth , statistics for 2015, 67% of the young people of age between 15 and 29 do not study, do not work in declared labour, do not take any qualification courses. This is a very high number. Statistically, there is no discrepancy, as these people are not registered as a labor force, so they are not registered as unemployed. As far as they are not registered as unemployed and are not getting any help from the government, the government seems not to care too much about them. But they are potentially an economic burden to their families. This is also a new phenomenon for Bulgaria.

VI. Conclusion

In this memoire, we have tried to prove our hypothesis, namely that the “privatization in Bulgaria, as conducted by all governments implicated, regardless of their political programs and affiliations, and in all of the forms of privatization used, **was economically necessary, but socially destructive and led to devastating social consequences.** This superficially created contradiction between economic necessity and negative social consequences we see mainly as a result of flawed privatization policies and practices. They did emerge from the predominant at that time neo-liberal view on economy worldwide, including on post-communist economy, and the specific

practices used in the Bulgarian privatization, based on this same neo-liberal economic theory.”

With regards to the starting point, or the state of the economy and the society in Bulgaria at the end of 1989, we have brought forward the facts, the plausible explanations and underlined the necessity for economic change. Of course, this is in the context of mass changes after the fall of the Eastern, or Soviet bloc. We have made our point that economic change was not only necessary, it was inevitable, as the previous system had outlived the extensive and mobilization model it had created and followed. In that sense, privatization was economically necessary as a part of a major shift towards free market economy and democracy.

At the same time, Bulgaria, as all the other central and East European countries followed the predominant at that time neo-liberal model of transition and privatization. The flaws in this model began to show more clearly after the crisis in 2008. Even one of the biggest champions of market neo – liberalism, long time chairman of the Federal reserve, the central bank of the USA - Mr. Allan Greenspan – had to admit during the Senate hearings on the crisis that there is a flaw in the way neoliberals have been seeing (and designing) the world. What is more, he particularly started emphasizing after 2008 that “the rule of law” was absolutely necessary for economic growth.¹¹³ This, unfortunately, was not the case of Bulgaria, where the transition and its focal point – the privatization – had, in fact, little to do with the rule of law and were more illustrative for a society in “anomie”.

Bulgaria was the recipient of the usual “economy pill” of the times and followed the model closely. Interestingly enough, some Central European countries, Poland being

¹¹³ Dr. Alan Greenspan – “Markets and the Judiciary” Sandra Day O’Connor Project Conference, October 2, 2008

maybe the best example, did not follow the neo – liberal model of privatization to the letter and, finally, got much better results, having a similar starting point.

In the memoire, we point out that the privatization took so long, from 1989 to 2001, had stages, went through different types – and all this worsened the situation, and maybe was never aimed at improving it. The fact of the matter is that the privatization was the major part of a power struggle for more than a decade because whoever managed the process, decided on the redistribution of assets of several tenths of billions of dollars. There is no such economic activity, or any activity apart from war and conquering, that can give such big profits in such a short time – and, unfortunately, for so few.

Bulgaria had to go through a flawed model and a flawed application, leading to the described pitiable results. Bulgaria is the poorest country in the EU, with gloomy demographics and poor economy. The social consequences, measured by the new social structures, income disparity, profiles of the new groups, and in their ways, are damaging. If we look at the continuous variables we use in the memoire, only one is positive – the GDP and this after a big dip in the 90s to 2000. Another index – the HDI (Human development index) is more towards neutral to positive. This is an aggregate index, including gross national income per capita, so obviously, it is influenced by the growing GDP. The rest of the indexes clearly show negative results, particularly alarming in income disparity and the Gini index, where the values are approaching critical stage (0.4). What is more, they show them in correlation with the timeline of the privatization and its stages.

As far as the influence of privatization can be felt in the social values and as a cultural shock to society, creating a dangerous confusion and a moral void, we have shown

this in the relevant chapter. With all the understanding that change always brings some kind of conflict and movement to a more open, more post-modern society is difficult, the way that privatization was conducted in Bulgaria was not helpful, to put it very mildly, to such a transition.

The most obvious results are the new, emerging social structures and the new groups and actors which appear. Immigration, demographic crisis and a shift in social values are also obvious results. In the relevant chapter, we have shown how the transition and the privatization affected the social structure. Namely, what are the serious differences with the structure of the starting point in 1989. It is a well-known fact, that progress often brings inequality, and by definition, inequality may be stimulating to some extent, provided there is social mobility and particularly vertical mobility. The inequality, created by the transition and privatization in Bulgarian has a socially dangerous character, as shown in the relevant chapters.

The social consequences of the privatization in Bulgaria are grim, and hopefully, they will be overcome with time. There is no “conditional tense” in history; we cannot change its course. The results are the subject examined in this thesis. A clear understanding of the situation that occurred as a result of the privatization process may become a starting point for future positive change.

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