

'Shock therapy' formulas have ruined the Bulgarian economy

by Dr. T. Nikolov

This speech was given by Dr. T. Nikolov of the Institute of the World Economy, Sofia, Bulgaria, to the conference of the Schiller Institute in Berlin, Germany on Nov. 23, 1991. The speech has been translated from the German.

Allow me to introduce myself. I represent a group of scientists in Bulgaria which, for the past year and a half, has posed itself the task of working out an independent reform program. We have done this, and submitted it to the government and the President. This reform project was widely publicized and has become widely known among states. The task that we set ourselves in this project, was, first of all, to think strategically, and to achieve Bulgaria's economic development and long-term transformation from a command economy to a market economy.

In eastern Europe as a whole, different alternatives to achieve such a transformation have been chosen, and we must now ask the big question, why the so-called liberal variants have been predominant. I believe that there are three answers to that question. In the first place, the fact must be recognized, that the transformation from the command economy to the market economy is by nature a liberalizing process: a liberalizing of the market forces. There is nothing negative to be said about that. Second is the fact, whether we like it or not, that neo-classical doctrine is dominant worldwide in the politics of economic theory. But this is not necessarily a permanent phenomenon. Third is the fact that today's liberalism is the simplest and most tempting formula for achieving this transformation. People believed that with one jump, by "shock therapy," they could go automatically from the command to the market economy.

I will try to show here to what extent this has succeeded.

As far as the eastern European countries go, figures exist and prognoses have been made, showing that it will take 10 years to regain the economic level of 1989. That means that up to the end of this century, in these countries, absolutely no progress is to be expected.

How can this be seen concretely in the case of Bulgaria? First of all, there is the decline in production, which, according to official statements, was 33% in the first year. That is the figure for *just one year*. But there are also other calculations, showing that the decline was really 40-45%. Every fourth enterprise is producing nothing. The decline in

milk production, for example, is 40%; for meat it is also 40%. In other areas, diseases have reappeared that we had long ago forgotten about, or thought we had overcome.

The decline of production has led to a great rise in unemployment. We now have 10-11% unemployment: Of a work force of 4 million, 375,000 are unemployed. That only refers to those who are officially registered. The real number is more like 500,000. If you add to that the 140,000 emigrants who have left Bulgaria, and take into account the fact that retirement age in Bulgaria is five years lower than elsewhere, then it is clear that we are the country with possibly the highest unemployment.

Yet the general beliefs of our politicians are in line with the views of the International Monetary Fund. In Bulgaria, the same practices that were applied in other countries, were pushed through by force. How is that? We lived for a long time under totalitarianism. In our country, for a long time, there was an attempt to use Marxist formulas to explain everything and to bring about order. Monetarism looked to us like something different. If we look at the reforms and the "shock therapies" that are being carried out in the eastern European countries, we see a great contradiction. . . .

Price policy

Take first the liberalization of prices [removing price controls—ed.]. According to the theory, these countries found themselves, at the time of the price liberalization, in a kind of neo-classical situation. But it was treated in a malthusian way. The economy was stimulated by demand, namely by this liberalization of prices. This brought us—as our group had warned it would—into a closed cycle. The economy went around in a circle, a disguised inflationary circle. The inflationary tendency intensified, leading to higher interest rates, declining production, unemployment; the spiral turned—and this has been going on for a year.

In the view of our group, the reason for it is that the reform was wrongly conceived. We believe that the best alternative for reform at the beginning would have been a currency reform. This would have reduced and stabilized the mass of money, in whatever form. . . . We in Bulgaria do not need a protracted phase of monetary stabilization. . . . You can see the situation in Bulgaria, and the situation in Poland is similar. Bulgaria is an extreme example, since the

whole reform was pushed through with virtually no foreign help.

Privatization of the economy

I would like now to take up the first point of the government's policy with which our group disagrees, and that is, privatization. What is happening with this in Bulgaria? For a long time now, there has been absolutely no private sector in Bulgaria. The state controls 96%. Now, we are told that all the government's policies are oriented on the basis of a market economy. In Poland, it was calculated that if privatization were to continue to be implemented as it is currently, it would take some 150 years to complete the process. Therefore, our group demands a policy of social privatization in these countries. We believe that in this way, a middle class could be created.

If, at this moment, a massive privatization is pushed through, as is envisaged, it would lead to a Pakistani social structure in Bulgaria: a stratum of very rich people, and the rest of the people poor, with no money and no possibility of participating in the privatization process.

This is very easy to prove. Let me tell you a little story from the most recent auto show in Skopje. There were autos of various qualities on display, and you can well imagine which are the most sought-after and most frequently purchased autos in Bulgaria: the big Mercedes [and other expensive cars]. This means that there has already sprung up in Bulgaria, a stratum of millionaires and billionaires, whereas the middle stratum simply does not exist. If the transition from a command economy to a market economy were something "normal," then we might still have to wait another 150 years for such a middle stratum to develop—but it is not so.

In my view, we now need to bring unique and unprecedented means to bear on the world economy. Hence we do not need the standard International Monetary Fund (IMF) formulas, as applied in Nigeria for example, but rather each country needs to have worked out for it an elaborated specific concept.

From this standpoint, there exists in the east European countries a big question, and that is above all will be the relations among the countries of the former Comecon or CMEA. We have been forced to adopt measures with which we are not happy. For a long time, we had been unable to trade with each other. The "solution" that was adopted, was to make our currencies convertible, but [unfortunately] this was pushed through in a "shock" manner.

I believe that there is a valuable historical example which would help us. That is the payments system which has been operational in western Europe since 1948. This kind of system could now take on a new role, if western Europe were to take responsibility for introducing a new Marshall Plan for eastern Europe. If you recall, in the western European system of payments, accounts were balanced by funds provided by the Marshall Plan. This must be done today, too, so that the



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east European market does not completely disappear. Whole enterprises in Bulgaria have been closed, since they can no longer export to the Soviet Union. At the moment, the Soviet Union cannot import anything more from Bulgaria either, since the payments system has been virtually shut down. There do exist certain agreements between Bulgaria and the Soviet Union, but they do not govern the exchange of goods in general.

I do not believe in a "shock diversification," a policy that is now being promoted. Such cures are not advantageous to the economy. Not only in Bulgaria, but in eastern Europe as a whole, the reforms have led to a dead end. We need new concepts.

A warning

In my view, the governments are not yet ready to accept such solutions. The situation is most critical. This must be underscored—particularly as concerns the reforms in the Soviet Union. What Yeltsin is now trying to work out, is just such a form of shock therapy, which already has been applied in Poland and Bulgaria. If we take into account that many people in Russia at this moment are living below the biological minimum standard of living, then one can imagine where such a reform would lead. I would like to warn the representatives of the former Soviet republics, against such a reform. There are other things that must be taken into account, in order for the transformation to proceed. Through these means, the market must be built up.

There must be a programmed development. Nothing is going to happen suddenly. You see, Bulgaria is at 50%. . . . The former Soviet Union and the former Soviet republics cannot pay this social price. It would also be a danger for all of Europe. That is the great question. If the Soviet Union stands still, what will happen to the new democracies? I am greatly concerned about this. In Bulgaria, a people has already been lost. . . . This should be a great warning.