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BULGARIAN ECONOMIC REFORMS AND THE GATT

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I. INTRODUCTION

In Bulgaria the first false start toward economic reforms was taken from 1965 to 1968. A second just ten years later culminated in interesting comprehensive reform principles announced in Decree 53 of 30 December 1981, but was then mostly ignored. "The third time may be a charm", as the saying goes. Initiated last year, the still incompletely applied principles of the latest reforms could turn out to be as "radical" as those presently operating in Hungary.

A surprise of the new reform measures was the accompanying request, dated September, 1986, to the Secretariat of GATT (the General Agreement on Trade and Tariffs) to initiate steps for Bulgaria's full membership in that organization (it has had "observer" status since 1967). GATT membership, per se, is not exciting since Czechoslovakia, Romania and Poland - all unreformed economies - are members. But the Bulgarians based their request, like that of Hungary in 1973, on the implied

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1 The author wishes to acknowledge the research support provided by the American National Council for Soviet and East European Research and the Fellowship Program for Advanced European Studies, Bundesinstitute für ostwissenschaftliche und internationale Studien, Köln.


3 It has also hired as consultant to the Bulgarian
condition that the economy functions like a market economy in terms of foreign trade policies.

It must be emphasized that a GATT application on those terms would make no sense unless the Bulgaria economy is seriously reorganized. However, whoever went ahead with the application was confident that the present principles for economic reforms can be transformed into functioning institutions by the time negotiations with GATT members are undertaken.

An outsider finds that confidence harder to share. After all, Bulgaria has already twice failed to keep reform projects and is still far from carrying out the third. It waits major enabling legislation and must overcome significant resistance to change. In addition, there are significant technical questions about the design of reforms, both in general and in particular reference to the terms of GATT membership.

Besides understanding these technical questions, anyone who must judge what is going on now in Bulgaria should be aware of how much uncertainty surrounds the final shape and the actual likely impact of the measures. What Bulgarian officials say tends to be misleading. They, perhaps unintentionally, "oversell" the reforms. "Oversell" means (1) a tendency to speak as if the details of reforms had already been decided and realized in practice, (2) a tendency to oversimplify measures by leaving out important exceptions and avoiding several possibly difficult technical economic issues, and (3) an inability to be really forthright on the politics of the reforms in the country. Besides, in contrast to the image of being ready to do business just like any capitalist country, Bulgarian officials are still seriously compromised by internal

(Footnote Continued) working party for the GATT application the Hungarian who negotiated his country's successful entry.
security regulations. They can not divulge good information on the country’s present exchange rates, its balance of payments, the values of imports and exports in terms that can be compared with domestic production and consumption statistics. And there is no one open about the politics of reforms in Bulgaria. The task of those who now must evaluate Bulgaria’s GATT application will not be easy.

II. THE PROCEDURE OF DECIDING BULGARIA’S GATT MEMBERSHIP

Bulgaria could have asked for GATT membership as a centrally planned economy, on terms similar to Poland or Romania. Poland was required to maintain a certain percentage increase of imports per year from GATT countries while Romania was merely committed to increase such imports as fast as total imports grow. Neither centrally planned country subsequently fulfilled its GATT commitment, although both are still members.

Instead Bulgaria’s letter of application on 8 September 1986 simply states:

"The economic and trade policy instruments being introduced at present within the context of the general evolution of economic policy in Bulgaria correspond to the basic principles and objectives of the General Agreement and thus ensure the effective participation of Bulgaria as a contracting party to the GATT."

Following Bulgaria’s official request to the GATT secretariat in Geneva, a meeting of GATT was held on 27 October 1986 to set up a "working party" for further consideration of the question. The Americans at first opposed this step, saying that Bulgaria had a centrally planned economy in which a tariff system was meaningless. Subsequent discussions led to a lifting of this preliminary objection on grounds that the question should be considered

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4 GATT, L/6023, 10 September 1986, quoting the application letter from Bulgaria.
by each GATT member (the so-called "contracting parties") in individual negotiations with Bulgaria. The working party was formed on 6 November.

A purpose of the working party is to submit questions to the Bulgarian government about the working of its economy with special reference to the question of what determines imports and exports. The Bulgarian government is then expected to reply and to provide the GATT Secretariat with a detailed statement of the terms upon which it wishes to be considered by the contracting parties. As matters now stand, this document will not be prepared and submitted until after 1 January 1988, awaiting clarification of significant and relevant parts of the economic reform measures. Of special concern is the exchange rate and price systems, but also all central policy instruments that might influence foreign trade.

Negotiations with individual members then begin once Bulgaria is prepared to provide information. Once two-thirds of existing GATT members have signed agreements with Bulgaria, it will become a full member with all rights and obligations concerning multilateral trade. This process can take several years. In the meanwhile Bulgaria has asked to participate in the upcoming trade negotiations in GATT.

III. PRINCIPLES OF THE NEW BULGARIAN SYSTEM

How much the Americans knew about Bulgaria’s intentions to reform is not known. But at least one serious step had

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5 What follows is based on the published Decree 71 of 29 December 1986, conversations with and papers of the Bulgarian representatives to a conference on "Bulgaria and The GATT" (organized by the Vienna Institute for Comparative International Economic Studies in Graz, Austria, April 1987), interviews with Bulgarian officials and economists in Sofia in late June, 1987, and an especially useful description by Ivan Angelov, Strategia na kachestveni promeni [The strategy of qualitative change], (Sofia: Partizdat, 1987), which is summarized in Ikonomicheskis misul. April 1987, 3-17, and other sources.
been taken and another was about to be announced. The first was disbanding the industrial branch ministries early in 1986. Thus, Bulgaria took a step that Hungary only made in 1980, long after its 1968 reforms were underway.

The next Bulgaria step followed, in principle, what is agreed to have been the heart of the Hungarian reforms in 1968. Beginning 1987, comprehensive rules for "self-managing economic organizations" [samoupravljavaschite se stopanski organizatsii] were decreed which grant broad rights to economic organizations while central bodies are no longer to mandate targets for output and input for the economic organizations. Instead, a new system of central direction is to take the form of "instruments of indirect central economic management" to be decided at a party conference scheduled December, 1987, and put into place by the first of 1988.

A. Changes in Central Economic Agencies.

Two major changes in central bodies have been made since last year. It may be finding the right form of central organization is difficult, but it is also possible that successive changes have been made in order to break up the power of central bodies.

A coordinating "economic council" attached to the Council of Ministers [stopanskiat suvet pri Ministerskiia Suvet] was dissolved after only a year and a half in August, 1987. Other organizations were also at this time dissolved.

6 "Formal disbanding" (of ministries for machine building, electrical engineering, chemicals, metallurgy, woodworking and forestry, and light industry, as well as for communications) is stressed because there is no information about what ministerial functions and personnel were transferred. The Economic Council was physically housed in the building of one of the largest branch ministries.

7 Published in Durzhaven vestnik, #3, 13 January 1987, 3-30.
including the Ministry of Finance and state committees for planning, prices and new technology. Details are lacking, but important functions were vested in a newly formed Ministry for Economics and Planning. Also, the Ministry of Foreign Trade reappeared after having been joined in one trade ministry, but domestic trade functions at the center were either eliminated or turned over to other agencies.

To a reduced rank of central bodies must be added nine (so far) "associations" set up for electronics, biotechnology and chemicals, capital equipment, metallurgy and mineral materials, consumer industry, forestry and wood products, construction, agriculture, and transportation. They are to carry out functions for both the state and economic organizations. What their state functions are is yet unclear. For member economic organizations they are "to pursue a joint technological, investment and marketing policy, coordinate activities, stimulate competition, provide joint services in the field of training, acquisition of scientific and technological information, etc."

According to a recent report, an association also was able to decide on the closing of an unprofitable enterprise.

B. Self-Management Economic Organizations (SEO).

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8 The term, "associations of a new type", is used to differentiate the new organizations from former smaller immediate management units under the branch ministries. The new associations were first set up in April, 1986, but have been redefined since January 1987. The best recent description, including lists of member economic organizations, is published as an annex in Rabotnichesko Delo, 24 April 1987.

9 The latter is described as a conversion of the former Ministry of Transportation and may resemble it in size and structure.

10 As reported in RFE, Bulgarian Situation Report, 5, 8 July 1987, p. 4.
The "associations" are to be operated on self-management principles, but leave the organization of material production for members. The first level of member economic organizations in the associations are some 128 obedineniiia (plus 10-15 special institutes and centers), best translated "amalgamations". Under obedineniiia are "enterprises" [predpriiatiiia] and "combines" [kombinati]. There are more than 2000 of these units in Bulgarian industry alone (not counting cooperative enterprises), an average of 20-25 per obedinenie.

While the enterprise is defined as "the basic technological, economic, and organizational entity", there is now an even lower unit, the brigade, also organized on "self-management principles". The new "commercial" banks (see below) and local public service units are also now self-management units.

SEO's acquire important rights and obligations, including: (1) the right of workers to elect managers and leaders of brigades (in elections at the end of 1986 2-3 percent are reported to have lost their jobs); (2) the obligation to be self-financing through their own net income, as well as to pay a variety of taxes and other payments into the state budget; (3) the right to distribute net residual income, but wages are to be a residual category and reflect performance-piece rates as much as possible; (4) the right to propose maximum prices for products and services provided and to sell at prices below the established maximums; (5) the right to choose suppliers and

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11 At least two other elements of more worker property rights in enterprises are under discussion. One is the formal transfer of socialist property to labor collectives for management, discussed in RFE, Bulgarian Situation Report 13, 20 May 1987, p.15. Another is creating a right of workers to invest in enterprises, up to a mentioned limit of 20 percent discussed by economist Ivan Angelov in Pogled. (Sofia), 20 June 1987, 12-13.
outlets for products and services, both domestic and foreign ("without any territorial or departmental limitation"). And in foreign trade to work through specialized foreign trade organizations or have direct contacts with foreign customers and suppliers; (6) the right to borrow and the obligation to pay back funds from new types of banks (see below), including domestic and foreign currencies; (7) the right to organize joint ventures with other Bulgarian SEO’s or foreign companies, or to sell and otherwise dispose of assigned property.

In addition, SEO’s are to be subjected to some form of bankruptcy procedure when they are unable to meet financial obligations which could result in their reorganization or dissolution. 12

C. Instruments of “Indirect Control”

Only the general principles for the new instruments of indirect control have been announced. Details are supposed to be decided by the end of this year.

(1) Planning. National goals are still to be identified in annual, five-year and longer-term plans. Also, an operational aim of planning is to establish the basis for setting interest rates, taxes and subsidies, prices, exchange rates and other normative indicators.

Draft plans are to be drawn up by some central agency on the basis of information from all levels of central, local and economic organizations and then submitted back to these units for discussion and correction. Changes can be affected by dialogue between organizations. The annual plan will still be approved by the National Assembly, but it’s fulfillment is no longer a legal obligation as before.

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12 In Sofia News (24 June 1987), a member of the Party Central Committee and an important institute director, while describing the possible bankruptcy procedures, said, “we’ve already got a long list of money-losing companies marked down for termination.”
(2) Investment Allocation and Commercial Banking - The Bulgarian National Bank, heretofore essentially a fiscal and accounting agent for the state, is to be turned into a western-style central bank. The rest of the banking system is being converted and expanded into a network of "commercial" [torgovski] banks.

Commercial banks are to supply most enterprise working capital and longer-term investment funds. They are themselves "self-managing economic organizations and are supposed to be as profitable as possible at both lending funds and acquiring them.

Their network includes some existing institutions such as (a) The Mineralni Bank organized several years ago as the first of such banks, now known as The Bank for Economic Initiative 13, and under new operational principles, (b) The State Saving Bank for deposits and lending for individuals and local, small-scale economic organizations, and (c) The Bulgarian Foreign Trade Bank which will continue to specialize in foreign trade activities (including that for the government). The present list also includes The Economic Bank, The Agricultural and Cooperative Bank, The Bank for Development of Consumer-goods Industry, as well as the Biokhim, Elektronika, Autotekhnika, Stroistelski, and Transport Banks. The latter seven are organized by and closely affiliated with the associations.

In the case of banking as with the dissolution of branch ministries, the Bulgarian program seems to match what was done in Hungary only in 1980. The banks' names only suggest initial specialization. They are supposed to be competitive in both lending and receiving deposits. And

13 This bank has worked closely with the Bulgarian Industrial Association [BISA] in promoting Bulgaria's small enterprise program, scheduled to include 1500 organizations by 1990.
interest rates on both loans and deposits are to rise to levels necessary to allocate funds on a market principle. All banks, not just The Bank of Foreign Trade, are given the right to borrow and take deposits in foreign currencies\(^{14}\), and to participate in joint ventures with either domestic or foreign companies.

The future supply of loanable funds is supposed to be divided into two broad categories. One called "state credits" will be used to finance projects having payout period longer than 10 years or which can not meet the terms required by the commercial banks. Its size and allocation will continue to be determined by the state plan. "Normal credits", however, will be competitively allocated according to commercial terms. This means that most economic enterprises will not only have to be concerned about the cost of borrowed funds. They will also have the opportunity to earn on deposited funds. Of course, there is also the negative incentive of bankruptcy, already mentioned.

The new system aims at improving the efficiency of capital by sharply reducing the share of investments distributed as free grants from the state budget and raising the portions financed by borrowing and enterprise retained earnings, and by decreasing the role of central planning in allocations while creating competitive capital markets.

(3) **Taxes, Net Income and Wages.** The system of taxes is under revision, as are regulations concerning the disposal of net after-tax income of economic organizations. One major purpose of a new fiscal system is to leave larger shares of net income in the hands of economic organizations.

Wages regulation will continue to be important. The wages fund of an enterprise (for all personnel) is limited

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\(^{14}\) In Hungary’s case, according to Marer, the Bank for Foreign Trade only handles about about 20 percent of all convertible currency transactions.
to the amount paid in a previous year plus (or minus) a centrally determined percentage norm of any increase (or decrease) in total income of the enterprise in the following year. Also, any difference between the percentage change in the wages fund and the percentage change in labor productivity is to be taxed (the wages fund tax), a provision to keep wages from rising because of price increases.

There will be recommended wage levels for individuals reflecting working conditions, seniority, and other factors, but actual wage payments are to be based as far as possible on performance or piece rates. Labor within economic organizations is to be grouped in brigades which work on contracts, called "accords", with the larger organization. In 1986 the average brigade in industry had about 35 members, small enough for members to personally monitor each others' work performance. If work defined in an accord can be done at less than the normed cost, members of the brigade can divide up the savings as additional wages. Management wages are to depend only on the total volume of profits and the rate of profitability (profits as percent of total income), subject to the fulfillment of contracts and state orders.

While a main goal is self-financing of all SEO's, it is recognized that subsidies will have to be granted on some goods. These are mostly in agriculture, forestry and mining where it is said "production costs are high". Most subsidies are intended to be temporary.

(4) The Proposed Price Mechanism. Under the new system, state or local organs will set prices of basic

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15 This is a feature which might result in members trying to exclude others from jobs in a brigade and would have an impact mostly on young workers just entering the labor force.
consumer goods and services, as well as wholesale prices for many mining, agricultural and forestry products. The rules allow in such cases subsidy, subject to a hoped for long term restructuring of the economy.

Under the new system for most wholesale prices, covering 50-60 percent of the GNP, actual contract or transaction prices are to be set by bargaining between producer/seller and user/buyer. However, the producer/seller must register a maximum reference price based on a price that could have been obtained on international markets and that is converted into domestic leva with due adjustment for quality, services, and unusual factors of supply and demand.

Price rules state that domestic cost calculations are to play no role at all in justifying a registered price. But such cost calculations should play a part in deciding whether or not to produce the product. In such cases the reform principles recognize several possibilities: (a) allowing temporary prices higher than the international reference price, (b) granting subsidies from the state budget, (c) discontinuing production, or (d) closing or reorganizing an economic organization.

(5) The Proposed Foreign Exchange Mechanism Under the old rules, exporting organizations were given targets for export earnings as absolute amounts of convertible and nonconvertible currency, but such currency was remitted by foreign buyers directly to the Bulgarian Bank for Foreign Trade. Similar allocations of foreign exchange expenditures were received by importers, but payments were remitted by the Bank directly to foreign sellers. The question of exchange rates was not especially important, although a usual characteristic of this arrangement is actual or effective multiple (explicit or implicit) exchange rates for one foreign currency, say the dollar, across different exported and imported commodities. Such a feature makes
GATT membership especially difficult because domestic and international prices can not be easily compared.

Under the new arrangements economic organizations that export or import will receive foreign exchange in their own accounts and pay with such funds or with foreign exchange purchased from state accounts. In addition, exporters are to receive quotas for obligatory portions of export earnings to be sold to the state at a "basic" exchange rate. Importers will also receive quotas for the share of imports for which foreign currency can be acquired at the basic rate. As the case may be, above quota amounts are to be sold or purchased at a "premium" exchange rate. At present the premium rate for both exports and imports is double the basic rate.

Only the quotas will vary among economic organizations. The basic and premium rates will be the same for imports as for exports and will not be differentiated by commodities. The actual basic rates for the dollar and the ruble remain state secrets, but should be published in connection with Bulgaria's GATT application. The exchange premium system probably violates GATT rules.

IV. PROBLEMS OF REFORM IMPLEMENTATION

There is virtually no information about the experimental application of some of the reform measures going on this year. Also, nothing has been said about how the complete new system is to be phased in beginning January 1, 1988. What follows is only a conjecture based on a combination of theory and the examples of Hungary and Yugoslavia.

(A) Contracts and Profit-Motivated Responses.

A reform transition seems necessary this year since next year there is not to be a centrally determined plan for economic organizations. Instead, in the course of this year they should be replacing plan assignments with contracts.
negotiated with suppliers and customers. How might this be taking place?

If the new new incentive system is to be taken seriously, then both wages and managerial salaries will be tied to profit. So economic organizations ought to be seeking a set of contracts that will maximize net income, given facilities at their disposal and the prices for outputs and inputs. Most prices will have to be established by negotiation, but limited by the registered international reference prices.

(B) The International Reference Price System.

The idea of requiring a maximum reference price based on international prices seems to be an awkward and possibly unworkable way to bring out a more rational price structure. Bulgarian organizations are already making a significant effort to catalogue international prices for the new system. One can not help thinking it would be easier to not register prices, but simply establish appropriate exchange rates and then let economic organizations freely decide when to import or export. Requiring registered prices suggests either an unwillingness to chance the impacts of fluctuations of world market prices or an equivocation on the rights of economic organizations to trade freely according to their self advantage.

Setting reference prices, in any case, must be a big problem. One question is if they are to reflect both world market prices and CMEA prices, where the bulk of Bulgarian trade is presently directed. If a more rational price structure is the objective, then the CMEA prices should not be used. But if they are not used, then special arrangements have to be made for pricing and the conduct of trade in this direction, something considered below.

International reference prices will be easiest in cases where products are actually exported or imported. But even in the case of the relatively small number of products traded by Bulgaria in international markets, prices of one
product can vary from market to market, across import sources, and from Bulgarian exporter or importer to another. Prices can change quickly. Exchange rate fluctuations add even more variability over time and across foreign markets. It is also not clear if prices will be based on "basic exchange rates" (see above) or the actual average value of foreign exchange received or paid, considering the "premium exchange rates".

Another layer of problems are introduced in pricing the larger number of Bulgarian products that are not exported on world markets. Hypothetical reference markets will have to be selected and then prices adjusted for differences in quality and services provided by sellers.

Theoretically both sellers and buyers should have an interest in information about alternative foreign prices. For example, buyers by the logic of reforms should have an interest in lower prices and, therefore, an incentive to verify prices cited by Bulgarian sellers. The best source of information on international reference prices would be actual foreign offers to sell. So, the best way of controlling domestic producers would be to ensure the right of domestic buyers to import when the price is better.

Another illustrative case is where only one Bulgarian buyer faces several domestic producers. If domestic production costs are lower than the international reference prices, then it would seem that the actual transactions or contract prices might be bargained down by a single buyer below the international reference price. But buyer monopsony would be constrained if the producers could actually export the product. That is, the Bulgarian producers would always export rather than accept lower prices from a domestic buyer.

This suggests that competition and "free" trade would ensure that prices in Bulgaria would reflect international opportunities. The registration of maximum prices might be redundant.
(C) **Competition in The Domestic Economy.**

There is also the important question of how enterprise behavior will evolve within the constraints of the price system. For example, in the case where presently only one domestic seller faces several users, the seller might be able to charge a maximum, registered price, even if domestic production costs are lower, thus earning unusual profits. A limiting factor in this case would be potential competition from other Bulgarian economic organizations. The reform rules, after all, do not limit the economic organizations to existing lines of production. So, other organizations seeking the highest wages for workers and managers ought to be attracted to set up production whenever significant profits can be earned.

(D) **Foreign Trade Connections and Domestic Concentration**

It seems clear that part of the immediate responses of Bulgarian economic organizations to the new system will be determined by their willingness and ability to compete in the domestic economy. Also, very important will be information on potential exports and imports, as well as actual access to international markets.

Presently there is no good information on the extent of product or market concentration in Bulgaria. It is assumed to be very high, especially considering regional segmentation typical for some products where there are numerous producers. In any case it is going to be very hard for Bulgarian managers to become competitors. That means significant price imperfections should develop in the economy once the reforms are implemented.

Also, there is no information on how many economic organizations have actually had any sort of direct contacts with international (non-CMEA) markets, either as exporters or as importers. Probably very few have any organizational capability in these regards, given the centralization of foreign trade up to now.
In fact, probably all Bulgarian economic organizations, large and small, have suffered from centralization in branch ministries of resources necessary for competition and export orientation (for marketing and distribution, research and development, long-term planning, investment financing, etc). So, as a transitional stage, it may make sense if those resources are transferred from the branch ministries to the associations who, in turn, initially render them for member economic organizations. The real question is what is the likely longer term evolution of the associations. Will they promote or discourage competition and direct contacts with international markets among their member organizations? That question is best answered having in mind the many exceptions to the rules that are provided for the transition stages of the reforms. In Hungary and Yugoslavia such exceptions became the rule and seriously hindered reforms.

(E) Structural Deformations and The Exceptions To The Rules of Self-Finance and Competition.

The ultimate purpose of international reference prices is not only to restrict domestic monopoly but to help rationalize Bulgarian production. This means encouraging the shift of production capacity to more profitable products and substitution of lower cost for higher cost inputs. The problem is that the Bulgarian economy may be so seriously deformed by past organizational behavior that an abrupt rationalization is either not technically and economically possible or politically acceptable. In fact, the reform principles recognize this possibility and provide several cushions against the shocks of restructuring.

(1) The Subsidized Sectors. Three sectors - agriculture, forestry and mining - have been identified for special consideration because they are said to suffer from high cost production. Typically, existing prices have not covered costs so subsidies have often been required. Still it is not clear in these cases whether relative costs are really out of line or whether past price policy, under
influences of CMEA and traditional attitudes, simply kept prices too low as a way of favoring industrial development.

Mining and forestry involve the special consideration of harmonizing prices charged for imports, most of which come from the USSR. Doing this is complicated for it is likely that Bulgarian production is relatively inefficient and high cost, reflecting the quality of natural resources. But keeping some domestic capacity may be justified on grounds other than strict economic efficiency such as national security.

Agriculture is a different problem. On the production side most loss-making operations are probably in the state sector and involve animal products. With recent decisions to rehabilitate the cooperative sector and possibly enlarge the private sector, the problem will be how to harmonize the distribution of production across three kinds of organization while eliminating the loss-making operations in the state sector. This will require, among other measures, unifying prices. Heretofore, not only have product prices differed across ownership units, but also different prices have been charged for construction, equipment, chemicals and fuels.

Agricultural products are the focus of another major adjustment problem – the alignment of consumer prices with production costs. Bulgarian consumer prices, like those elsewhere in Eastern Europe, often bear little resemblance to relative costs of production or to the intensity of demand. Some services are distributed without direct charge. Some goods sell below cost while others have prices far in excess of costs. But even in the latter case they may not clear the market. The resulting distribution depends on many other factors such as ability to queue, tipping, ability to swap favors, and the decisions of petty bureaucrats who let people in, make appointments, determine qualifications, etc.
Such a system not only increases the cost of distribution. It also tends to reduce the effectiveness of income incentives in the production sector because it reduces the usefulness of money. Thus, as recognized by some Bulgarian economists, its maintenance will dull the positive effects of self-managed and -financed economic organizations.

A second problem in such a system is that it mismatches information and incentives given to consumers and to producers. Consumers in Bulgaria, as elsewhere, tend to adjust consumption patterns according to the real relative costs of acquiring consumption goods and services. They tend to "overbuy" goods that are sold at subsidized prices and "underbuy" goods that are heavily taxed. But with economic reforms producers should shift production from products with low prices to those which offer more profit. If increasing relative scarcity on the side of consumers is not reflected in increased profitability of production, the system will not have correct adjustment properties.

The outlook for economic rationality in the consumer sector is not good. Like consumers elsewhere, Bulgarians want more goods and lower prices, but not charges where things have been "free" or higher prices on so-called "necessities". Already effort is being made to convince Bulgarian consumers that no abrupt changes in consumer prices are expected from reforms and that, in the future, the new arrangements will provide "equity" through democratic decision-processes. One suggestion is that this be done by the formation of consumer councils at all levels of government with participation of the trade unions and the Fatherland Front, a mass-political organization. If really

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16 See Angelov's discussion of "economic incentives and the equilibrium between money and goods in the market" in Strategiia ..., 64-65.
open and democratic, such councils promise to be the focus of significant tension and strife. A lesson might be taken from Poland on how easy it is to settle consumer prices "democratically".

(2) Structural Deformations in Industry. Present Bulgarian industrial structure was formed under conditions that differ significantly from those defining relative world market prices. Hence, it will not be surprising to find, when that latter standard is applied, that production costs of individual products and even whole industrial facilities exceed appropriate valuation.

A practical question is how extensive are structural deformations in Bulgarian industry. The reform principles, as mentioned, consider the possibility of temporarily allowing higher prices than reference prices, something which would also require a restriction of imports, or of subsidies, as alternatives to shutting down production.

Bulgaria industrial workers represent a major interest group in this case. Many are going to be put under pressure to accept pay cuts in order to reduce costs, or shift jobs. Temporary unemployment is also a possibility. It is no surprise that the initial transition to new rules within the economic units has evidenced some worker unrest and labor-management conflict.\(^{17}\)

With workers being given more opportunity to express themselves about management and Bulgarian trade unions being challenged to undertake more authentic representation of workers' interests\(^{18}\), the future should see some significant

\(^{17}\) Some of the news is summarized in RFE, Bulgarian Situation Report 5, 8 July 1987, 3-6.

\(^{18}\) So far the trade unions have replaced the central committees organized on branch lines, following branch industrial ministries, with "voluntary associations" of an uncertain structure. See the report on the most recent
conflict over restructuring. It is also likely to reveal worker suspicion of Bulgarian management, something which in the past has been applied in authoritarian ways hardly matching the precepts of modern, enlightened personnel management. Again the experiences of Yugoslavia, Hungary and Poland require one to forecast considerable resistance of Bulgarian workers to restructuring.

(3) Tariffs and exchange rate subsidies.

Another possibility for control of the adjustment process is provided in the Bulgaria tariff and foreign exchange system. And in Bulgaria, as elsewhere, it may be tempting to use "protectionism" to avoid a needed economic restructuring.

As far as is known, the present tariff rates are those set for January 1, 1981. However, those rates were set with the former price structure and with other purposes. Now one would expect significantly different tariff rates to be required. This suggests that in the course of next year, there will be taking place simultaneously adjustment of domestic prices, adjustment of the tariff rates, and negotiations with GATT members over what are to be appropriate tariff concessions on the Bulgarian side. All of this will put those negotiating in a particularly difficult position regarding what is actually going on in the Bulgarian economy.

Further confusion will result from the exchange rate system because it provides elements of subsidy and taxation through the system of quotas for sale or purchase of foreign

(Footnote Continued)

\(^{19}\) The Bulgarian tariff is published in Bulletin International des Douanes, Year 1982-1983, Number 74 (International Customs Tariffs Bureau: Brussels, August 1982).
exchange at "basic" exchange rates. It is so stated that such quotas are to be used to encourage selected exports and discourage some "inefficient" imports.

Given that the present "premium rate" is double the "basic rate", the potential effect is quite large. For example, suppose all export receipts of Commodity X are eligible for the premium rate while none of the exports receipts of Commodity Y are. This means (in this admittedly extreme case) that each dollar of export revenues for X will bring twice as many leva as a dollar of export revenues for Y. Applying the same extreme example to the case of imports means a potential tax of 100 percent if importers have to acquire foreign exchange at the premium rate.

(F) **Centralizing Tendencies and Bureaucrats.**

A main reason for formation of the associations is that many economic organizations are organizationally too weak. So the associations are needed to prod them into competition (just how is not yet explained), but also to train executives, promote foreign contacts, organize new technology, etc. The problem is that along side this promotional role, the associations also are to carry out state functions. Surely not a few at the higher ranks of the Bulgarian economy see this as the most important function and hope the associations can grow into strong centers of control.

In spite of some evidence to restrain the associations, there is the fact of their structure which nearly duplicates the number and **specializations of the former industry branch ministries**. Besides, there is a present need to

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20 According to Mr. Zhivkov, the associations are to be limited to only 70 professional employees (Rabotnichesko Delo, 6 March 1987), but no information has been published to support his statement. Also, it has been reported that persons not formerly in the ministries were being appointed (Footnote Continued)
administer the transition to the new system. Some one will have to investigate, recommend, and look after all the exceptions to the price rules and the application of hard budget constraints that have been listed above. As noted, in the one case of an enterprise closure, the decision was made by an association. This is strong control, not mere coordination. And in an economic system, one exception tends to justify ever more exceptions until they become the necessary rule.

One suspects that, in any case, there is not much sympathy in Bulgaria for a socialism based on competition of enterprises in the internal market, flexible prices and free trade. If there is a model behind the reforms it is more likely to be one derived from the Bulgarian conception of the Japanese experience that sees that country's success as the centrally orchestrated emergence of large Japanese companies into international markets on the basis of technology, not as a result of domestic competition. One suspects Bulgarians of this view would like to turn the associations into company headquarters of future Bulgarian multinational companies.

Another problem, no doubt, is the need to find jobs for the few thousand professional administrators that staffed the former ministries. It may be assumed that major infighting is taking place over who will get to stay at the top since the implication is that fewer people will need be employed in central economic functions. Who might have to move to the provinces involves more than normal politics because it affects families, educational and cultural opportunities, and influence networks - all the vital stuff of personal life in Bulgaria. Besides, out in the provinces

(Footnote Continued) to the associations. In one available case, the association for investment machinery, the president had been a factory director outside Sofia (Rabotnichesko Delo, 14 August 1987).
the number of high level places is now purported to have shrunk by nearly 20,000 places as a consequence of the recent reorganization of district governments. The economics of concentration are likely to be compelling in the Bulgarian context and will require strong political resistance by the Party if competitive economic organizations and not domestic monopolies are to emerge from the reforms.

V. Conclusions: GATT interests and The Political Will to Reform in Bulgaria.

It is useful to repeat that an unreformed Bulgarian economy would not match the terms of Bulgaria's application to GATT. Also, contrary to what Bulgarian officials might suggest, there is no evidence (as of October, 1987) that the reform principles had been put into practice. What one can say is the following. If the international reference price system is workable, if Bulgarian economic organizations can be made to compete, and if exceptions during the transition can be minimized, then there would be only one obvious violation to GATT principles in the new Bulgarian system. That violation would be the system of exchange rate premiums.

But what is more likely to emerge in the Bulgarian economy, even in the optimistic view that does not see some recentralization occur, is an economy that is full of exceptions to the rules, where prices are subject to many distortions, including variable monopoly, and where individual economic organizations often are favored by subsidies and variable tax treatments. And this will be the muddy waters that will face the GATT contracting parties when they consider what kind of trading partner is likely to be found in Bulgaria.

When the GATT contracting parties attempt to discuss these questions they should expect the Bulgarian negotiators to point out, as they have already done in preliminary meetings on their membership request, that similar problems
with subsidies, state intervention, and variable monopoly influence are found in the economies of all present GATT members. This is an observation no one would dispute. The problem is that it does not get at the real issue raised in Bulgaria's case.

The question is how extensive will be state intervention, organizational monopoly, and departures from competitive, parametric prices in the new Bulgarian economy. Will they be beyond the "acceptable level", given GATT standards? And in the next few years will these "imperfections" significantly decline or will they grow?

A reference could be made to the experience with Hungary. Even though Hungary started reforms in 1968, the economy was still a real muddy water when it joined the GATT. One of the questions that those negotiating with Bulgaria should ask is whether Hungary's record in GATT has been a satisfactory one, a question which can not be answered here. Then they should ask themselves what to expect comparatively from Bulgaria, given the Hungarian record. The reason for such a question is that its is very unlikely that Bulgaria can move more quickly in the reform process than did Hungary.

As in Hungary's case, the likely course of events in Bulgaria from here on is going to be influenced very much by politics for and against reforms. That is, GATT negotiators should evaluate not only the Bulgarian economic system, but also its political system - better said, the political will to reform in Bulgaria.

Who in Bulgaria can be for market oriented reforms and why? Bulgarians as consumers, generally, can gain only in the longrun, but face the likely pains of price restructuring in the next few years. Established Bulgaria workers face both job and wage restructuring. It is hard to believe that most of them have confidence that managers will lead them to better pay in the next few years. The managers themselves have to be in divided camps because they probably
have a better idea now who will gain and lose. The group most clearly losing, it would seem, are the bureaucrats above managers and below the higher ranks of party and state. It would seem that the only place for most of them would be jobs in economic organizations. They must already be resisting reforms and seeking ways to keep as large a share of central bodies as possible.

At the top of the Party and State, but below Party Chief Zhivkov the reforms must be viewed in terms of how positions about reforms affect the chance to take Mr. Zhivkov's place. No one on the outside knows this for sure, but it seems unlikely that Mr. Zhivkov himself engineered the reform proposals. Someone at the top level must have proposed them, but others are surely against them. But why someone would propose reforms is also not clear. Positions on the reform issue may play a part in determining Zhivkov's successor, but in this case it would seem that the best position would be no clear position, except to support whatever Mr. Zhivkov is for. Like everyone else, he wants to get rid of bureaucracy and inefficiency, but the specifics of his ideas about reforms are not publicly expressed. In terms of the politics of economic reforms, we are long on questions and short on answers. Hopefully some will appear before a decision on GATT membership is necessary.