Bulgaria in Europe – Societal Legacies, Models and Targets
A Personal Outlook

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The brief notes that follow are a glimpse of the issue through my personal intellectual and professional experience during the last 25 years.

Pre-Accession I. Back to the starting point (1990)

Putting aside the exciting return to democracy, for many economists the transformation of 1989 was essentially a *revolution of rationality*. After years of communist economic absurdity and amidst the ongoing collapse of the economic system, immediate priority was given to the most pressing issues of the long postponed stabilization policies. The focus only slowly shifted to the coming disruptive adjustment to the liberal economic order and to capitalism in general.

After 15 years in academia, my first post-1989 job was the launching of the Agency for Economic Coordination and Development (AECD) - a governmental (but de facto intellectually independent) analytical macroeconomic observatory. The mandate we conceived as essential at this stage was to monitor the inconsistency of the adopted macroeconomic policies; to highlight the conflicts between the market rules, the prevailing state property and the widespread soft budget constraints; to identify the incipient signs of competitive market behavior.

At the very beginning the term *market economy* was almost never used alone in the public debate. The notion was accompanied by an accretion of qualifications such as *social* or *mixed*: society was not yet prepared to swallow the basic principles of capitalism and people feverishly searched for euphemisms replacing the concept. The dominant expectations were a vague *normality,* a coexistence and smooth competition between different “forms of property”. Nostalgia for an idealized pre-communist past spread and the ambitions were calibrated towards catching up with more prosperous neighbours like Greece.

The analyses conducted at AECD between 1991 and 1994 identified the core problems of *the economy of transfers*. The early phase of the transition was actually an exercise of unprecedented redistribution of losses and of national wealth through the (often informal) decapitalization of the state-owned assets in an extremely diffuse property rights framework. The process under way boiled down to the transformation of the tangible and intangible assets (networking; information) inherited from communism into private capital: a historically unavoidable but barely controllable shift. In the fierce political struggles that accompanied it, the public opinion was obsessed by tormenting questions like how private capital should be legitimized? Is it possible to accept capitalism without accepting the newborn capitalists? Who are the brand new “good” and “bad” capitalists? The period could have constituted a golden age for research in new institutional economics, but the opportunity was actually missed.

Europe (not only in Bulgaria) was a still distant and fuzzy perspective. There was neither an understanding of, nor interest in, the varieties of capitalism that existed on the European continent.

Pre-Accession II. Conceptualizing the 1991-1996 failures

Bulgaria did not achieve sustainable macroeconomic stability until 1996. The period ended with financial turmoil including a major banking crisis and a short-lived hyperinflationary episode between December 1996 and February 1997. This sequence of events unexpectedly redirected my scholarly interests. Looking for precedents I started to realize that the shadow of the past never fades away; that intellectual legacies, inertia, path dependence and continuity are critical in the economy. This led me to a detour in attempting to understanding the transition through history. Eventually history grew into my permanent framework of reference for the assessment of the current economic trends.

The compressed message I drew from the pre-communist tradition was that Bulgarian economic culture has no memories of a liberal order and that the legacy of the European liberal and globalized 19th century is missing or strongly distorted. The "second Bulgarian capitalism" had nowhere to return to, no memories or genetic codes to revive. The imprint of the state and collectivistic values before communism could be felt in numerous areas: the strong influence of cooperativism; the repetitive patterns of crisis resolutions; the reluctance to reform; the dislike of capitalism and the pervasive search for "third ways"; the impact of the war economy which shaped many aspects of the forthcoming communism; the effects of the autocratic regime and the no-parties system in place since 1934… I was mostly interested in the turning points at both extremes (the raise and the fall) of communism which surprisingly revealed more continuities than disruptions. I found out that, paradoxically, the public was intellectually more equipped to accept the centralized planned economy in the mid-1940s (in a sense society was pregnant/infected with communism) than to face capitalism in the early 1990s.

In this reading of history *Europe* acquired a definitely greater significance for Bulgaria. The perception of Europe emerged as the lasting metaphor of modernity, the epitome of a superior partner and competitor; a strong attractor in a hopeless process of catching up; the image of everything Bulgaria is not; the idealized immaculate province where order reigns, rules are strictly observed and prosperity accessible to all.

Pre-Accession III. Preparing for accession

The negotiations for EU accession began in 1999. As a member of the Board of Governors of the Bulgarian National Bank at that moment I was involved in defining a credible and reasonable path from the Currency Board Arrangement (CBA) introduced in 1997 to the Eurozone.

The CBA is a somewhat exotic monetary system (adopted in the 1990s by Bulgaria, the Baltic countries, Argentina and Hong Kong) which is based on a fixed exchange rate and rules out refinancing of the commercial banks and direct funding of the budget by the central bank. Strictly speaking it is a technical device providing financial and thus macroeconomic stability. In a broader sense the CBA was conceived as a cultural breach that was instrumental in eliminating the channels of corruption linking the central bank, the commercial banks and the government.

The design of the CBA embedded two strategic choices related to Bulgaria's European perspective. The country sent a strong signal by ignoring the USD (the then prevailing monetary substitute) and selecting the DEM (to be automatically replaced by the euro) as anchor currency. Moreover, the CBA had a credible exit (not the case for Argentina where the CBA collapsed in 2001) with the mandatory adoption of the euro. Convincing the ECB that floating the Bulgarian Lev before joining the Eurozone (as stipulated by the standard procedures) would be a risky exercise was not an easy task. It was finally agreed, however, that

Bulgaria and the other CBA countries deemed to join the EU will keep their monetary system untouched until adopting the single currency. During the lengthy accession process *Europe* became a tangible bureaucratic counterpart. A large-scale legal harmonization and adoption of the *acquis communautaire* was carried out, regular progress reports were produced, and the country was officially recognized as a functioning market economy. Simultaneously, the EU emerged as a strong economic pole of attraction in the extremely favorable global context of 2002-2008 when Bulgaria benefited from a huge inflow of FDI reaching 30% of GDP in 2008. The structure of the foreign investments and the absorption capacity of the economy, however, produced relatively modest results. During that period annual economic growth exceeded 6% only twice and real estate bubbles inflated as elsewhere.

Entering Europe I. Shifting the economic conditionality paradigm

External economic conditionality is an essential factor shaping peripheral societies. This was confirmed during the post-communist transition when the role of ideas was largely overestimated: the transition was not so much a "spontaneous" competition of strategies; it was very marginally an intellectual history. A great deal of the changes has been induced through superficial technocratic procedures.

After 1989 the major shift in this area was the move from the IMF-type to the EU-type conditionality. In the 1990s the IMF followed the traditional conditionality design and its universalistic meta-language. In broad lines, it restored the conditionality setting familiar to pre-communist Bulgaria and implemented by foreign bondholders (early 20th century), the Inter-Allied Commission or the League of Nations (during the interwar period). EU accession/membership, in turn, implied a much deeper, far-reaching and ambitious project touching values and the structure of the overall society.

The basic economic assumption of the EU model is that membership initiates through nominal convergence a lengthy rapprochement to the average welfare indicators of the Union. From 2007 to 2014 Bulgaria's GDP/capita (in PPP) has, indeed, progressed from 29 % to 47% of the average EU level. The much stronger implicit idea of the European *acquis* is that accession would instigate a gradual infiltration of the "strong culture" into the new entrants' economic culture. A smooth linear motion is postulated which implies the existence of a clear-cut "hierarchy" of societies, a well-defined vector of motion and the possibility of outstripping along this vector.

Linear advance, however, is by no means warranted. There is no steady and irreversible path to ideal types. A complicated interplay of economic cultures is at work with different blends and/or equilibrium points between their "weak" and the "strong" components. For Bulgaria, in particular, society is plagued by networking, conflicts of interest, and barters of influence. Business and politics are not effectively fenced off from one another. Truly competitive markets remain scarce due to their small size, chronic capital shortage, particular geopolitical status, or historical traumas.

Thus, instead of linearity we observe occasional reversals, a stop/go rhythm and continuous monitoring. For the economy and economic institutions (as for human beings) timing is essential. A latter replica is not identical to the original. Copying cannot replace the absence of one's own history. Social experience is *accumulated*, not simply transferred. It is impossible to live someone else's past. When, for example, the economic texture is the consequence of mostly private efforts, while elsewhere (in a latecomer's society) a similar structure is shaped by government intervention, the two realms are not alike.

Entering Europe II

Europe's basic ambiguity is the fundamental dichotomy of Western economic culture which combines, in an often incoherent way, two conflicting principles. On the one side, there is the statist, *dirigiste*, regulationist and interventionist philosophy embedded in the EU bureaucratic functions and activities. On the other side there are the distinctly liberal and free-market values rooted in the most far-reaching projects such as the free movement of people, the single market and the euro. Newcomers are free to choose among those options according to their local idiosyncrasies. Whatever their preference, they are sure to find somewhere in Europe a mirror image of the selected option.

Bulgaria's preferences are entirely in line with its historical traditions. The pragmatic/opportunistic choices overshadow other considerations. Without any doubt, free movement is a highly prized new right. But beyond it the public expects from Europe money, not values; state, not market. Those expectations foster a lenient economic culture, not the entrepreneurial spirit of the heroic Weberian or Shumpeterian capitalist. The generalized anticipations for "easy money" distributed top down teach people to deal with (and to outsmart) the bureaucracy; not to play the markets.

Eurofunds represent a mere 2% of GDP but they attract disproportionate public attention. These flows are a valuable substitute for the limited domestic government financing for public infrastructure but they also generate unhealthy speculations. Since the accession the only game in town is how to capture these funds which cultivates a corrupting environment: their inherent distributive logic fuels both the ever vivid corruption practices and paranoiac conspiracy insights. As a whole, they nurture low trust in a society where, quite often, the manipulated anti-corruption speech is even nastier than corruption.

Bulgaria's EU membership also has a number of identity side effects, among them the depressing outcome of visualization. Backwardness becomes more transparent to the extent that it is not the same to be a relatively poor country outside and the poorest one inside an affluent community. No radical prepositioning in the secular ranking of the European countries' economic/social development is at sight and the old wealth divides are transposed inside the EU. An exceptionalist mood prevails and, as it is customary in the region, the other part of the continent is still perceived as an alien space, the *we/they* opposition remains, and the majority of the Bulgarians consider themselves "half-Europeans". It is hence no wonder that the hybridity of economic culture becomes a focal point of scholarly interest.

Lessons from the crisis. Moving Europe I

The turning point of the Great Recession has had important repercussions. It revealed concealed/forgotten/ignored faces of Europe, destabilized and redesigned rules and goals, and generated widespread disenchantment.

The crisis highlighted *unstable patterns of behavior* where ambiguous practices in the banking sector or in public governance have been common. A key lesson from economic history was confirmed: the highly demanding constraints of the market are considered as uncomfortable and universally disliked by firms, states and households. The overriding instinct is not to follow, but to distort competition and conventions by drifting to monopolism and to collusion with political power. Rules are avoided and circumvented or – at least – no one refrains from avoiding them when such an opportunity appears. Economic history could be read as an often successful series of attempts to evade the "market discomfort". Communism is the apex in this respect.

The recent collapse showed to a generation, pampered by a long series of mild recessions and tempted by oblivion, that capitalist dynamic is inherently (sometimes violently) cyclical. The well-known but periodically forgotten fact is that even in the "mature" economies risks cannot be fully mastered. Not only entrepreneurs but also consumers and the public at large are attracted by risk. They like/tolerate being defrauded because this is accompanied by the fascinating veil of short-term gains. Crises (more so the major of them) are the outcomes of risky conduct beyond reason which despite the regulations is intrinsic to the system, not the exception. The 2008 breakdown showed how it had been possible to transfer losses of unsuspected magnitude, to make them opaque, to increase leverage by an unprecedented factor, and to create a shadow bank system. All this wrapped in a persuasive doctrine, a permissive intellectual ambiance and a loose regulatory framework.

The Great Recession revealed *moving policies and targets*. In the tackling of the crisis the EU was not the once acclaimed rocky rule-based system. Non-compliances with regulations (for instance budget deficits) were tolerated; supervision has been weak, partial and dominated by "bank nationalism". The Eurozone rules are being changed on board.[1] Restrictions to free movement of labor are discussed and implemented. Policies rightly considered as vicious in the periphery (massive bail-outs of irresponsible debtors or imprudent creditors) are applied in the core countries. In this context of moving, disappearing or fragmented objectives, catching up becomes nearly impossible. Why copy models that reproduce dubious behavioural patterns the copiers are held responsible for?

While politically (to a certain extent also economically) understandable, the response to the crisis through a rush towards stricter regulations is misleading. In the long run markets cannot be outsmarted. They will invent new devices to transgress the established controls; the larger the weight of government, the stronger the incentives to socialize losses.

Lessons from the crisis. Moving Europe II

The after-2008 realm is a world of *moving ideas*. Even if for the bulk of my generation/milieu of economists the reasonable order is that of a liberal economy, the crisis obviously calls for a certain degree of humility. We have to acknowledge that the liberal point of view does not necessary reflect the "common interest"; that in a democratic society the liberal economic values are not shared by the majority and cannot be systematically imposed through elections. They are not (as we thought in the early 1990s) a goal with predetermined success. A lesson to be (re)learnt from the recent turbulences is that we have to get accustomed to the cyclical movements of the conceptual pendulum.

1 A telling specific case in point is Bulgaria's postponed accession into the Eurozone. Although by 2007-2008 the country was fulfilling the Maastricht criteria and was technically eligible to join ERM II, non-economic considerations prevented this step. This possibility has been rejected tacitly as it was deemed impossible for a country with obvious shortcomings in the judiciary, a poor corruption record and a monitoring mechanism for rule of law compliance to enter the Eurozone.

Nowadays the neoclassical economics' paradigm is under siege. Cavernous anti-capitalist hate and fierce anti-liberal attitudes emerged from their more or less latent retreats and flood the public arena. The financial profession (activity) is demonized, thus returning the public imagery back to the 18 century's opposition between "productive/unproductive" labour and to the Marxian antagonism between "fictitious/material" capitals. The attractiveness of anti-mainstream in the current circumstances is quite natural. While during the 1990s in Eastern Europe liberalism was iconoclastic, many of its versions eventually evolved into doctrinarian libertarian rhetoric, apologetic, conformism and lack of critical thinking. From another side, the aversion to the boring European discourse and political correctness is irresistible.

But the crisis certainly does not seal the death of liberal attitudes. In economics no alternative consensual paradigm is in sight. The recent intellectual novelties are mostly trivial remakes of Keynesianism. The Thomas Piketty trend, for instance, might seem to be a respectable revival of Marxism or of the anti-capitalist critiques of the 1960s, but it ultimately rests upon shaky empirical grounds which will be certainly falsified (in Popper's terms) in the near future. The deep theoretical fundamentals of neoclassicism stand still firmly. As concerns the practical policies that accompanied the crisis, the wave of nationalisation was not an ideologically inspired turn, but essentially an urgent, unorthodox and reversible monetary tool.

Finally, this crisis *moves borders* and redesigns fault lines across Europe. It imposed the images of the *South European specie* (corruption; institutional immaturity; clientelism) and confirmed the North-South divide. Simultaneously, the torment of the euro reintroduced the hardest 19th century conditionality tools (reminiscent of the 1897 Debt Committee in Greece or the earlier precedent with the Ottoman Empire and Egypt), and enhanced the concentric circles in a de facto two-layer Europe. The events also had some healthy effects insofar as the strong commitment of Europe to the single currency fostered unavoidable (albeit still timid) federalist elements which are badly needed for the consistency of the overall monetary construct.

In purely macroeconomic aspects Bulgaria ranged closer to Northern Europe's financial orthodoxy without gaining, however, many image benefits from this respectable track record. Concerning economic culture, the Greek crisis confirmed the affinity of the two countries' models. Leaving aside parallels from a more distant past, common features are clearly recognizable in the interwar period. During post-war those states' economic development were mirror images on the two sides of the Iron Curtain: in many respects Greece was a tangible realization of a hypothetical, would-be, non-communist Bulgaria. Finally, after communism they provided comparable examples of failed economic models outside and inside the EU.

Concluding remarks

In Bulgaria, as elsewhere in Eastern Europe, the fall of communism was lived as a bold break and a revolution. A quarter of century later, the *transition* is a story about continuities and *longue durée* social and intellectual legacies that continue to shape attitudes and values; a narrative about the difficulties encountered by the "new" society to overcome personal, intellectual and economic sequels of the "old" one. It is an exercise that is made all the more complex by the fact that the reference goal *Europe* has itself experienced dramatic changes.

There was actually no single *transition* but a sequence of them. There is no teleology, no linear movement and unmovable goals but a fluctuating, uncertain path, like in the verses of Antonio Machado:

Caminante no hay camino, se hace camino al andar… /Traveler, there is no path. The path is made by walking…/

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