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Bulgaria: The BIEA and Economic Reform

Summary

Sofia's New Economic Mechanism, a modest reform program launched in response to stagnating economic growth in the late 1970s, proposes measured decentralization of enterprise decisionmaking to improve economic efficiency. Although concrete measures fall short of Bulgarian rhetoric about reform, one significant step was the creation in 1980 of the Bulgarian Industrial Economic Association (BIEA). The influence of the BIEA's young, technocratic reformers apparently is on the rise, despite footdragging by the sluggish bureaucracy. [redacted]

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This memorandum was prepared by [redacted] East European Division, Office of European Analysis. Comments and questions are welcome and should be addressed to [redacted] Chief, East European Division, Office of European Analysis, [redacted]

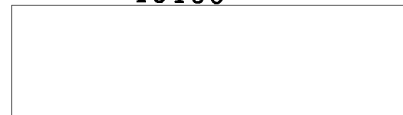
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### Background to Reforms

Bulgaria enjoyed solid economic growth in the late 1960s and early 1970s, fueled by large increases in imports from the USSR and the West and by the migration of workers from agriculture to more productive jobs in industry. GNP grew at an average annual rate of 4.7 percent in 1966-1970 and 4.5 percent in 1971-1975.

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By the late 1970s, however, the sources of growth were dwindling. The USSR began to slow increases in energy and raw material deliveries. Financial pressures resulting from the rapid buildup of debt to the West forced Sofia to limit imports of Western capital goods and expand exports to generate hard currency trade surpluses. Supply bottlenecks and a shortage of skilled labor limited gains in output. With resource constraints tightening, economic plans that emphasized quantitative output targets over efficiency were increasingly inappropriate. Between 1976 and 1980, economic growth slowed to only 1.2 percent.

### Emergence of the BIEA

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The Zhivkov regime responded with the New Economic Mechanism (NEM), a program of gradual reforms beginning with agriculture in 1979 and extending into industry in 1982. At the heart of the NEM (which the Bulgarians insist is uniquely Bulgarian, not a copy of other East European reform programs) is the intention to improve efficiency, productivity, and quality by giving more authority to enterprise managers and by making the economy more responsive to changing factor costs and domestic and international market demand. The main elements of the NEM include:

- significant reduction of compulsory plan indexes, leaving only broad indexes that are essential to "insure national balances";
- greater responsiveness to market forces through reduced emphasis on quantitative production goals and the use of profitability as the primary performance indicator;
- gradual reduction of state budget subsidies to unprofitable enterprises;
- greater managerial autonomy over enterprise decision-making, including the distribution of profits and investment;
- expanded use of contracts to regulate relations between suppliers and buyers;
- tying managerial and worker wages directly to enterprise profitability as an incentive to improve productivity and quality;

These measures apparently have not been implemented on a large scale, and the Bulgarian economy remains in most respects a conventional centrally planned system. The means of production remain under state ownership, and planners control most economic activity through allocation of so-called deficit materials--energy, raw materials, and capital. Probably the NEM's most significant development was the establishment of the BIEA to improve Bulgaria's foreign trade practices and to promote the small enterprise program in industry. [redacted]

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The BIEA is officially described as a "voluntary association" of manufacturing, trade, and engineering enterprises; scientific institutes; research and development centers; technical colleges; and banks. It apparently draws talent from all these groups into one coordinating body with authority to cut across traditional bureaucratic lines. The organization is divided into four permanent offices that set and implement policy: economic analysis, industrial development, organization and management studies, and international affairs. According to the US Embassy in Sofia, BIEA member organizations account for about 75 percent of Bulgaria's industrial output. Members apparently pay dues to support BIEA activities but otherwise remain subordinate to their respective ministries. [redacted]

The BIEA's mandate is to improve efficiency and business performance largely by eliminating red tape. In the past, for example, foreign businessmen and Bulgarian buyers were not permitted to negotiate with one another. Government foreign trade organizations acted as middlemen, which both frustrated the foreigners and hindered Bulgarian industry's adjustment to outside markets. The BIEA, by contrast, promotes direct contacts with foreign businessmen. The association has established links with financial consultants in London and New York and now advises its members in joint venture negotiations under Bulgaria's relatively liberal joint venture laws. In addition, the BIEA is currently working to secure Japanese participation in the development of a quality control center. [redacted]

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The first chairman of the BIEA, Party Secretary and Politburo member Ognyan Doynov, 49, is widely viewed as a key proponent of economic reform and of increased reliance on Western technology as a means of improving economic performance. Doynov was appointed Minister of Machine Building and Electronics in January 1984, suggesting that he and other architects of the NEM were moved into positions of direct control over economic activity. Following his appointment to the cabinet, Doynov became honorary chairman of the BIEA, thereby maintaining his influence over the association's activities. [redacted]

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#### Aid to Small Businesses

The 1985 economic plan calls for the BIEA to oversee the allocation of 5 percent of total investment to small, consumer-oriented firms. According to one BIEA official, there are nearly

200 small enterprises (50 employees or less) operating mainly in food processing and light industry. BIEA officials are seeking Western cooperation in the project, mainly through licensing agreements. During the 1984 Plovdiv Industrial Fair, the BIEA sponsored a symposium on the small enterprise project and emphasized that Western equipment, managerial skills, and technical know-how were essential. [ ]

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Sofia touts the small state-controlled enterprises as the hope for overcoming systemic rigidity, and they probably are being used to experiment with economic reform. A major goal of the program is to improve responsiveness to consumer demand and to strengthen links between producers and the domestic market. The program ostensibly offers managers and workers greater authority in decisions on investment, innovation, and disposition of profits--though to what degree is uncertain. Sofia apparently hopes that reduced bureaucratic control will attract top quality workers and foster technological and managerial innovation. It probably calculates that increased availability of consumer goods, coupled with a new system of wage incentives and bonuses, will eventually help alleviate the apathy and low productivity that plague industry. In its infancy, however, the small enterprise program has not significantly improved light industry's performance. [ ]

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The small enterprise program, under the stewardship of the BIEA, is one of the most significant examples of economic reform outside agriculture. In its current form, however, the program falls short of Hungary's thriving "second economy" both in terms of liberalization and economic impact. Several factors limit the efficiency and innovation the program is supposed to foster:

- In Bulgaria, the means of production in the small enterprises remain socialized property, whereas Hungarian entrepreneurs are allowed limited private ownership.
- Bulgaria's small enterprises are created to fill market gaps, especially in the consumer sector; they do not compete directly with larger state and cooperative enterprises.
- In Bulgaria, financing of the small firms is state controlled, unlike Hungary where an individual can get bank financing for capital investment.
- Only about 200 small enterprises are in operation in Bulgaria, compared to more than 30,000 in Hungary. [ ]

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Sofia may gradually experiment with more liberal measures if the initial experience with small enterprises proves successful. For the indefinite future, however, Bulgaria's small enterprises will have a less significant impact on economic performance and living standards than the Hungarian program. [ ]

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Technocrats Generate Controversy

The BIEA has developed into the Bulgarian version of a think tank whose innovative ideas have evoked criticism from orthodox members of the leadership. The BIEA staff of young technocrats generally advocates decentralization and a restructuring of industry toward such technology-intensive branches as robotics, biotechnology, and computers. One BIEA official went so far as to say that Bulgaria was not only backward but was producing the wrong goods. Stressing the need to abandon raw material and energy-intensive industries, he stated, "we should move into computers....Software is where the money is." [redacted]

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The BIEA's foreign activity has strained its relations with the traditional foreign trade organizations, the Ministry of Foreign Trade (MFT) and the Bulgarian Chamber of Commerce and Industry (BCCI). According to the US Embassy, an MFT official admitted that there is much rivalry between the BIEA and the MFT. The BIEA arouses BCCI ire by encroaching in trade promotions, exhibitions, and fairs. [redacted]

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[redacted] BIEA is "battling" with the Central Statistical Office for the release of more comprehensive economic data, arguing that a more accurate picture of the economy is required to implement economic reforms. [redacted]

BIEA Chairman Doynov has complained that many managers are implementing only those reforms they consider beneficial. In response, the BIEA is attempting to serve as a consultant to enterprise managers, conducting management seminars on NEM objectives and on problem solving. The US Embassy reports that the BIEA has discussed with Western academic groups holding seminars on management, econometric modeling and forecasting, and Western business practices. [redacted]

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Progress and Prospects

BIEA efforts to improve Bulgaria's foreign trade practices appear to be making headway but they have a long way to go. [redacted]

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trade is complicated by pressures for countertrade, protracted negotiations, licensing procedures, and financing problems. Moreover, quality deficiencies continue to plague Bulgarian exports. [redacted]

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Progress on economic reform also has been slow. Change to date has consisted mainly of cautious decentralization of enterprise management and some efforts to reduce bureaucratic interference. Although the NEM targets the reduction of government subsidies and the introduction of monetary incentives for workers, it has not yet attempted to deal with major issues like price reform, wage differentiation, bankruptcy, and bank reform. [redacted]

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Despite slow progress so far--Zhivkov privately concedes the gap between reform rhetoric and reality--Bulgarian leaders stress that they will not abandon the NEM. Regime attitudes toward the small enterprise program will be an important barometer of its commitment to real economic reform. The entrepreneurial behavior promoted by the program could contribute significantly to the decentralization of enterprise management and to the reduction of bureaucratic interference. [REDACTED]

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The Gorbachev succession, moreover, may encourage more extensive Bulgarian reforms. Mixed signals from Moscow since the early 1980s have undoubtedly contributed to Bulgaria's timidity in pursuing needed reform. According to one senior BIEA official, Gorbachev's ascension is a positive step, even though anticipated reforms in the CEMA trading system might initially be to Bulgaria's disadvantage. Most Bulgarian leaders appear to see Gorbachev as an economic reformer sympathetic to their desires for greater efficiency. [REDACTED]

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