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Austerity vs. Efficiency: How Recovery Drives Distorted the Labor Market Mechanisms in Bulgaria

■ Preliminary estimates of the IMF show that the recovery of the economy was discontinued in 2011; and, most probably, in 2012, and even in 2013, the negative trend will be preserved. This forecast was confirmed in spring 2012 by the European Commission. International experts specify that, if there is some economic growth, it will be insignificant, and tending to 0% on an annual basis.

■ The economy of Bulgaria received some “shocks” at the initial stage of the crisis and its proliferation, and the economy is expected to have a longer downturn in time with a growth close to zero, or at zero level, without any indications for positive near-future growth.

■ Restructuring of the labor markets is wrongfully applied.

■ Austerity policies produce imaginary stability, which has a procyclical effect, inevitably.

■ The crisis in Bulgaria will be a long-term one, and it will also be stronger, as the country is de-industrialized and does not own any more national highly competitive industrial and trade capital; in addition, the foreign capital in the industry sector is rather incidental, while in the trade sector it is speculative by nature to a great extent, or the trade profits are exported abroad.

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Introduction

This present paper is a logical continuation of the publication of the two authors, titled: *"Bulgaria: Transition Revised – Social Fragmentation and Poverty Increased"*, issued by the Friedrich Ebert Foundation in 2011 in the Collected Papers: *"Equity vs. Efficiency: Possibilities to Lessen the Trade-Off in Social, Employment and Education Policy in South-East Europe"*. This first study was centered onto the shifts in employment, changes in incomes and modifications of the social alterations during the period of the economic boom – just before and after the accession of Bulgaria to the EU.

This, second in a roll paper is titled: *"Austerity vs. Efficiency: How Recovery Drives Distorted the Labor Market Mechanisms in Bulgaria"*. It is focused on the social effects as a result of the global crisis, which entered the Bulgarian economy in 2009. More specifically, this paper reveals the changes in employment, income, and quality of employed workers, which are due to the sharp decrease in economic activity as well as in the measures to combat the crisis, which were initiated in the period 2009-2012.

The thematic scope of the analysis may be explained in the following way:

Destructive influences on the austerity policies on the labor market, entrepreneurship, and life strategies of Bulgarians.

As is widely known, austerity policies are designed to follow austere restrictions of expenses in order to maintain a low budget deficit (less than 3% of the GDP) and a safe level of the external debt (less than 60% of the GDP). Put simply, austerity measures lead to uncompromising "tightening of the belt". Once launched, austerity measures divert the actions designed to combat the crisis goals to

the field of fiscal policy, making all regulatory mechanisms subordinate to one primary goal – financial stability.

The sharp turn towards extremely restrictive fiscal and social policies in Bulgaria was made preemptively (comparing what happened in the country in contrast to other EU members) – at the inception of the second half of 2009. This turn was facilitated by several circumstances: a political mandate of a new right government with predominant neoliberal ideology; the presence of a Currency Board, which automatically disciplines economic agents; conformism of the social partners and, particularly, the diminished influence of the trade unions; a passive mood of the civil structures (including professional organizations, local communities, organizations for self-defense of the tax-payers etc.).

Following the scenario developed by Germany and France, under the pressure of the European Commission, austerity policies were introduced in almost all countries which were members of the EU in 2011-2012. The new radical drift was marketed to the general public as the safest road to recovery of employment and economies of the countries. However, in practice, this strategic choice turned out to be counter-productive.

Concentration of the whole attention of the political leaders, and the greater part of the resources onto the financial sector, made it clear that there are too many weaknesses and long-term negative effects, accrued as a result of speculative bank operations in the Eurozone.

In 2010, the debt catastrophe case of Greece exploded, and in just a few months this country came to the brink of bankruptcy; then Ireland followed, and Portugal, as well as Spain, along with Italy.

Counter-measures of an austerity type were imposed by the so-called Troika (EC, ECB, and the IMF), as a precondition to deliver emergency money aid, but they turned out to be of low effectiveness up to this date, and even inadequate to treat the debt crisis positively.

After some temporary excitement in 2009-2010, the European economies entered a second recession, which is expected to last into 2013 as well.

The only countries not affected by this negative trend up to the present moment are Germany, Poland and Estonia. Meanwhile, the second downturn has brought a new, more serious impact on employment both in developed and in developing economies of the EU. Some of the recent forecasts of the ILO predict that a return to the precrisis levels of employment necessitates the creation of 80 million new jobs, which could happen in 2015-2016 (given the fact that the present, dominated by the fiscal-oriented anticrisis tools are replaced by others, which are designed to stimulate the economic growth).

At first glance, the Bulgarian financial system is situated well, according to the indicators for domestic stability and external debts, bearing in mind the unpleasant circumstances of the foreign markets. The budget deficit had a downturn in 2009 (4.3% of GDP). In the next two years there were attempts to stabilize it at noteworthy low levels, and in 2011 it was 2.1% of the GDP.

The external debt of 16% of GDP is also among the lowest indicators in Europe – almost four times lower than the limit fixed by the Fiscal Pact, approved by the other country-members of the Eurozone on March 1st, 2012.

These results gave firm grounds for the Financial Minister of Bulgaria to underline several times that Bulgaria is firmly among

the top five countries in the EU in terms of the criteria for fiscal stability. Hence, the conclusion that the Bulgarian practice of regulating incomes and taxes could serve as a prototype of a successful anticrisis policy on a European scale!

In his turn, the Prime Minister, Boyko Borissov, used similar arguments to recommend to the European partners, who happen to have high/risky indebtedness, that they impose the Bulgarian model for extreme restriction of the wages and pensions, in order to restore the financial equilibrium. Translated into figures, such an “innovation” could stand to mean that Greece must cut the wages and pensions in the country by 120%-150%; and other countries, including Italy, Spain and Portugal should do the same.

No matter whether it is a matter of inadequately used irony, or it is a matter of not being familiar with the elementary relations and interdependencies in comparative economics, these provincial recipes raise topical questions, which necessitate holding serious debates among Bulgarian economists and sociologists, who are professionals in the field of crisis economics:

- Question Number One: When and to what degree will the austerity model, tested in Bulgaria produce the first positive results in real sector of the economy, based on the indicators of: (1) growth of employment and incomes; (2) shortening the distances in the pyramid of social injustice (respectively limiting mass poverty)?
- Question Number Two: Is Bulgaria capable alone of reaching a new boom in employment (/similar to that in the period 2002-2007), and is it possible for the country to restore the trends for catching-up

with the average European incomes and standard of living, bearing in mind the country's open type of economy, which is directly affected by the export and the neo-colonial type of the banking system? (a note: over 90% of the banks operating in the country are foreign – Greek, Italian, Hungarian, and others).

To provide a competent answer to the questions raised, it is necessary to follow:

- On the one hand, the trends in the economic growth in crisis periods and their reflection on the stability of the labor markets, dynamics in the wage levels (in direct relation to labor productivity) and social stratification;
- On the other hand, specifics of the manifestation of the crisis cycle in the European area, and more specifically, in the periphery and the center of the Eurozone (that is, in countries, whose economic and financial condition may directly affect the Bulgarian situation);

Our approach in this case is aligned to the strict requirements for reliability of information and for objective conclusion making, imposed by comparative economics and comparative sociology. Our efforts are aimed at preserving ourselves from the influence of political indoctrination, which is adherent to the public debate in Bulgaria in the period of 2008-2012, whenever it comes to the question of the global crisis and its lo-

cal aftermaths. We have in mind reactions motivated by political empowerment, when domestic failures are explained by foreign drawbacks, and partial national successes are taken, turned into absolute truth, and are even recommended as models to follow in an international plan.

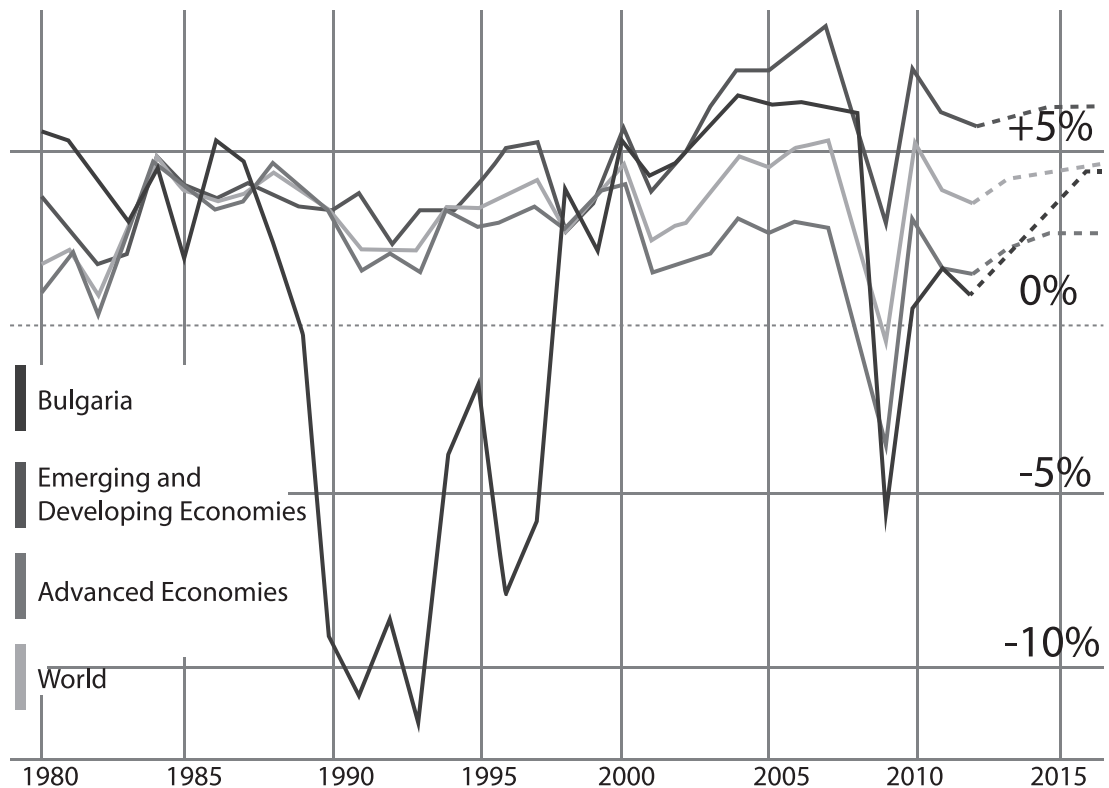
I. Jobless Recovery

Acquiring an objective and sustainable vision, which is free of local pressure - about the dynamics of Bulgaria's GDP growth for a longer time horizon is directly related to using data from international institutions. In this case, we quote the indicators of the International Monetary Fund /IMF/.

The Graph-1 illustrates the GDP growth of Bulgaria, of Emerging and Developing Economies, of Advanced Economies, and the World. As may be easily seen, Bulgaria's growth dropped sharply in 2009, and then a process of slow recovery was detected in 2010.

These indications do not turn into an upward dynamic trend, however.

Preliminary estimates of the IMF show that the recovery of the economy was discontinued in 2011; and most probably in 2012, and even in 2013, the negative trend will be preserved. This forecast was confirmed in Spring 2012 by the European Commission. International experts specify that, if there is some economic growth, it would be insignificant, and would tend towards 0% on an annual basis.

Graph 1. GDP Growth of Bulgaria and Other Regions (1980 – 2010)

Source: Adapted Illustration from the IMF Data Mapper of the GDP Growth [1]

If the time span is expanded and a historical comparison of the GDP growth is conducted for the last 15 years, it will be evident that the recession of 2009, followed by a second trough point in 2011-2012, is as extreme in terms of the negative consequences on businesses, labor markets, and incomes of households as it was in the crisis in 1996-1997.

It is known that in the hyperinflation crisis of 1997 there were mass job cuts and lay-offs of workers from enterprises, countless number of bankrupted companies, constant delays in payments and chained bank bankruptcies. Excluding bank bankruptcies (up to this moment), the other economic indicators of the economic downturn scenario that has already happened are available today as well. Hence, it is most probable that history

will repeat itself in the short-term plan (the second half of 2012 and 2013).¹

In most of the New Member States (NMS) countries of the EU this last recession was coupled with steady and sustained increases of prices – of diesel, electricity, home-run bills, and numerous others prices, which gave much room to speak about of stagflation.

More specifically, these facts stand to mean that the period of stagflation in the Bulgarian economy must be associated with a serious decrease in the levels of production, coupled with new mass layoffs and a high

¹ Our prognosis is different from rather optimistic expectations for not entering a second recession and having a sooner upward trend, which expectations were delivered at the beginning of the year by a pool of experts from the so-called School of Market Fundamentalists; our prognosis is different from the Summary Report of the Economic Institute of the Bulgarian Academy of Sciences announced in May 2012.

rise in the prices of energy resources, and prices of goods and services; and this period shall be from 2009 to 2013. In addition, the forecasts of the European Commission (EC), the IMF, and the Organization for Economic Cooperation and Development (OECD), which traditionally accumulate a huge volume of analytical information, delineate the position that the countries of the Eurozone will enter a new recession in 2012.

Consequently, the NMS of the EU, including Bulgaria, will enter a period of recession in the spring 2012, or summer 2012, at the latest.

If this pessimistic forecast is confirmed, a new deeper trough point will be reached in the business cycle of Bulgaria between 2014 and 2015. And this is the main reason in our paper to speak more about the second phase of the crisis and to interlink the analyses of employment, income, material and social wealth of the country.

Here is why the viewpoint we share is that the Bulgarian economy has already entered the second phase of the economic crisis, which is due to: on the one hand, the multiple external factors, such as the frictions in exports, the dramatic fall of the foreign direct investments (FDIs), paralysis of the credit activity in the country; and, on the other hand, the Bulgarian government stubbornly following the most hardlining policy ever applied on the European continent in terms of utilizing austerity measures.

It is exactly this extreme neoliberal orientation which is the root of the poor economic performance and the high levels of job reduction. Government and financial hardliners are committed to following this pace for a third year in a row and, as it seems, they intend to follow it to the end of their political mandate in 2013 (more probably – even after that point).

Despite the series of austerity measures which have been adopted, such as cutting

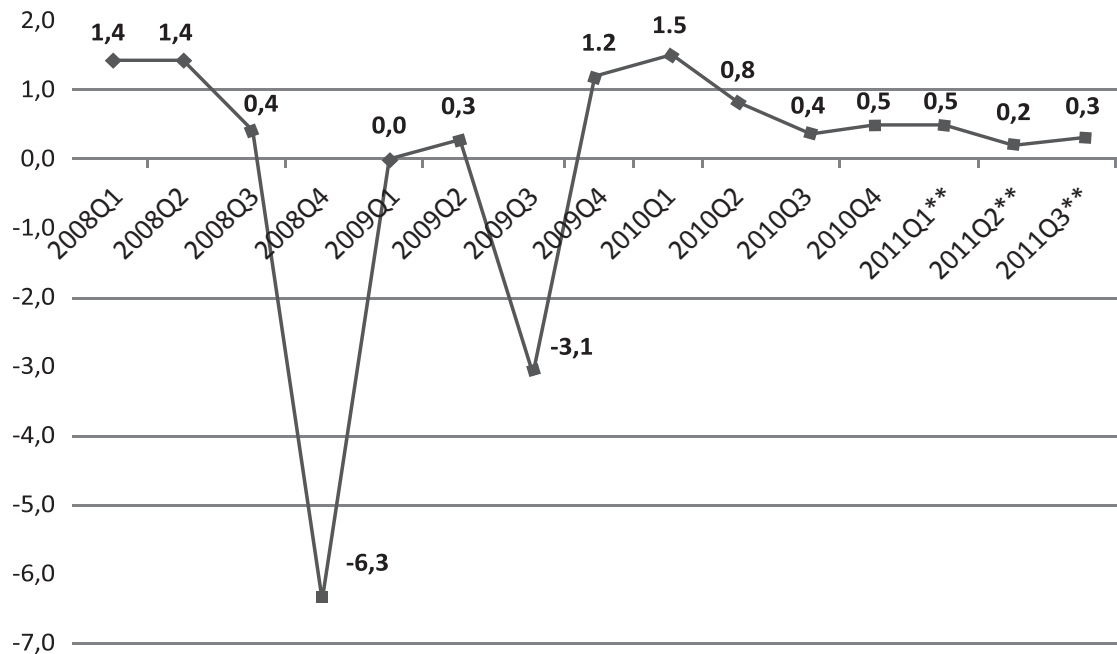
costs, such as payments of contracts, where the state is a party with private economic operators, working on a discount rate of 7% of the contractual value, and many other measures, the business activity in the country is expected to shrink further, and the GDP growth to be extremely slow, if there is any growth at all.

Here, we are referring to the objective reports and prognoses, and not the optimistic scenario, which is simulated at the beginning of every fiscal year, when the bill for the budget of the country is discussed.

Let us recall, for example, that when there were debates for the macroeconomic framework for 2011, the Minister of Finances of Bulgaria delivered his prognosis that the economic boom will be about 3.5% on an annual basis [2]. However, it is already known that at the end of the first quarter of 2012:

- The official GDP growth of the country for 2011 is 1.7%;
- The situation is the same in 2012. The official forecast for the GDP growth, targeted by the budget, is 2.4%. At the end of May the Minister of Finances unilaterally corrected this value to 1.4%. It will be interesting to see what the actual results are at the end of this year.

And, bearing in mind that ministerial statistics are quite elastic (not to say frivolous), it is far better to use the data released by the National Statistical Institute (NSI), in order to illustrate the real trend of economic growth in the last few quarters. It is beyond any doubt that the Bulgarian economy follows the curve which illustrates the double-dip scenario – once at the end of 2008 until the end of 2009 (with a very short recovery in the first two quarters of 2009); and a second time – from the middle of 2010 onwards. This is demonstrated on Graph-2.

Graph 2. Bulgarian GDP-growth on a Quarter-by-Quarter Basis (2008-2011)

Source: Own illustration, based on data from the National Statistical Institute of Bulgaria, Adapted from Table GDP-1.4.2. For FY2011- estimates; [3]

Therefore, we could easily say that this GDP-growth, reported in accordance with the methodology of the Eurostat, is half as much as the official forecast of the government announced at the beginning of the year. This growth is equal to about 76 bln. Bulgarian levs /BGN/, or about €38 billion.

Although numerous economists doubted the official forecasts and expressed their concerns, the mainstream economic view widely announced and supported by the Ministry of Finance and the pro-liberal government of the country imposed unknown modifications of the free-market doctrine. Moreover, the country came to a point where long-term forecasts simulate unknown modifications of the free-market doctrine.

For example, the government explained that it has to launch some immediate and necessary steps to align the economic standard of the country with the EU Strategy 2020. And

this actually happened in the very “eye” of the crisis storm, when there were visible signs that the economy was falling towards a second trough point and exit from it was vague.

One of the most controversial moves of the government was to initiate quick accession of the country to the EuroZone and introduction of the euro, respectively. This, however, was not viewed as a proper exodus from the crisis. Numerous critics siding with alternative economists in Bulgaria and abroad spoke out against such a quick decision. Then a new move was initiated by the government – to use the Fiscal Reserve to finance governmental expenses. The Fiscal Reserve as of December 31 2009 was 7.7 bln. BGN, while recent figures, as of February 28, 2012, demonstrate that it is 3.8 bln. BGN [4].

The government utilized about 4 bln. levs from the Fiscal Reserve in 2010 and 2011.

This policy was eased by a legislative change which was passed in 2010, according to which the Fiscal Reserve could “float” in any current financial year, and is to be balanced at the very end of the fiscal year. Stated in other words, absolute freedom was given to the government to use the money from the Reserve at its own discretion. In addition to these changes (by the way – contrary to the officially proclaimed policy of austere cuts), an extremely low threshold of the required Fiscal Reserve of 4.5 bln. Levs was introduced, called a “sanitary minimum”.

Let us focus on the other main indicator of financial consolidation – the budget deficit. In 2010 the government publicly engaged itself that it will preserve the budget of the country balanced. However, contrary to declared by the government intentions, the budget of the state was not balanced, in accordance to the commitments, which the government made in 2009, and in 2010 (the budget deficit for 2009 is 4,3% of the GDP, and for 2010 is 3,1% [5]). It was in 2011 (by preliminary forecasts of April/2012), when it was reported that the budget deficit is 2,1% of the GDP [6], which justifies to some extent the efforts of the government in terms of conducting austere fiscal policy, but in essence this policy is far distant from the declared intention “to keep the budget balanced”.

Probably, this is the main reason for a new bill to be passed, according to which the expenses in the budget and fiscal mat-

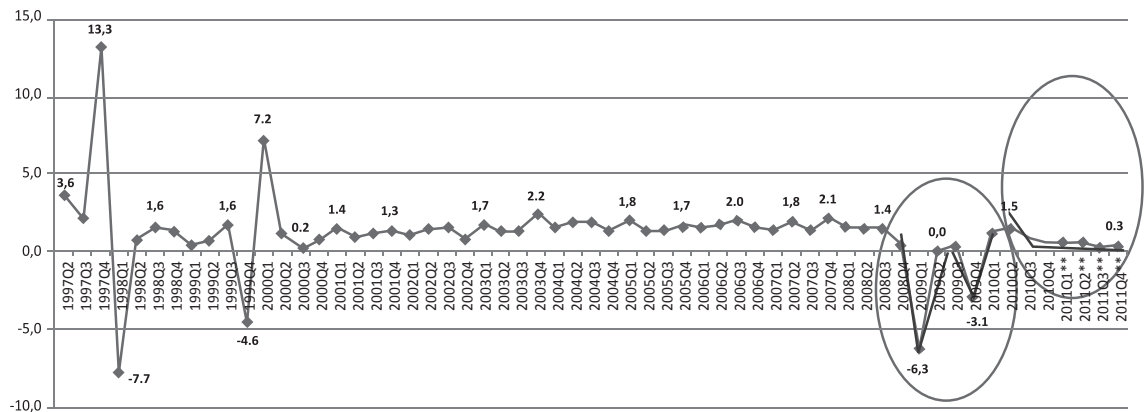
ters are cut. This initiative was named after the Minister of Finances – “The Dyankov Pact”. The bill has already been passed and the act has been in force since the beginning of 2012. Two very important moments must be underlined. Firstly, the budget deficit must not exceed 2% of the expected GDP of the country; and secondly, annual expenses must not exceed 40% of the expected GDP. These, and many other legislative changes and fiscal innovations signal that the economy will stagnate further in 2012. This gives us an additional reason to foresee that:

In mid-term of 2 to 3 years the economy of the country will shrink again, passing over the zero point.

Available data show that after the first and after the sharp second dip of the economy in 2009 and 2010, Bulgaria has entered a new (second) phase of economic sinking.

On the next graph there are two indicated zones, which clearly demonstrate that:

The economy of Bulgaria received some “shocks” at the initial stage of the crisis and its proliferation (the zone which shows the W-style of the recession), and the economy is expected to have a longer downturn in time (the zone which shows the L-style of the recession) with a growth close to zero, or at zero level, without any indications for positive near-future growth.

Graph 3. Bulgarian GDP-growth on a Quarter-by-Quarter Basis (1997-2011)

Source: Own illustration, based on data from the National Statistical Institute of Bulgaria, Adapted from Table GDP-1.4.2. For FY2011- estimates [3]

The L-shape recession we foresee for Bulgaria, based on the official data, is due to internal factors, such as the austere measures initiated by the government without paying proper attention to the significant restructuring of the economy and the distortions which start to occur on the labor market. We assume the position that:

Restructuring of the labor markets is wrongfully applied.

One of the main issues which requires an answer, in our opinion, is what the forthcoming L-shape recession will lead to, as it may last until the mid of the present decade. We believe that, on the one hand, this recession will delay restructuring of the economy, based on a new, highly competitive and technological basis; on the other hand, it will deepen the distortions/disbalances in the very macroeconomic proportions. In any case these negative trends will affect the situation on the labor market, which has been seriously destabilized since the inception of the crisis. It is necessary to view realistically the fact that the evolution of the crisis cycle in Bulgaria and in the New Member States (NMS) of the EU proves undoubtedly that

the optimistic prognoses to find a sustainable way out of the crisis in the short term have failed (such prognoses prevailed until the middle of 2011).

Optimistic scenarios are artificially constructed – they are either intentionally misleading, or professionally incorrect, or of low professional quality, especially when regarding Bulgaria. It is true that, at the beginning of the crisis, as a result of synchronizing the anticrisis measures (mainly in the countries of G20), the European countries were stabilized somehow, and some countries even indicated minimal growth. However, in the second half of 2011 this trend ceased, and the national economies in the European economic area started to enter a new period of stagnation, which is also valid for Bulgaria.

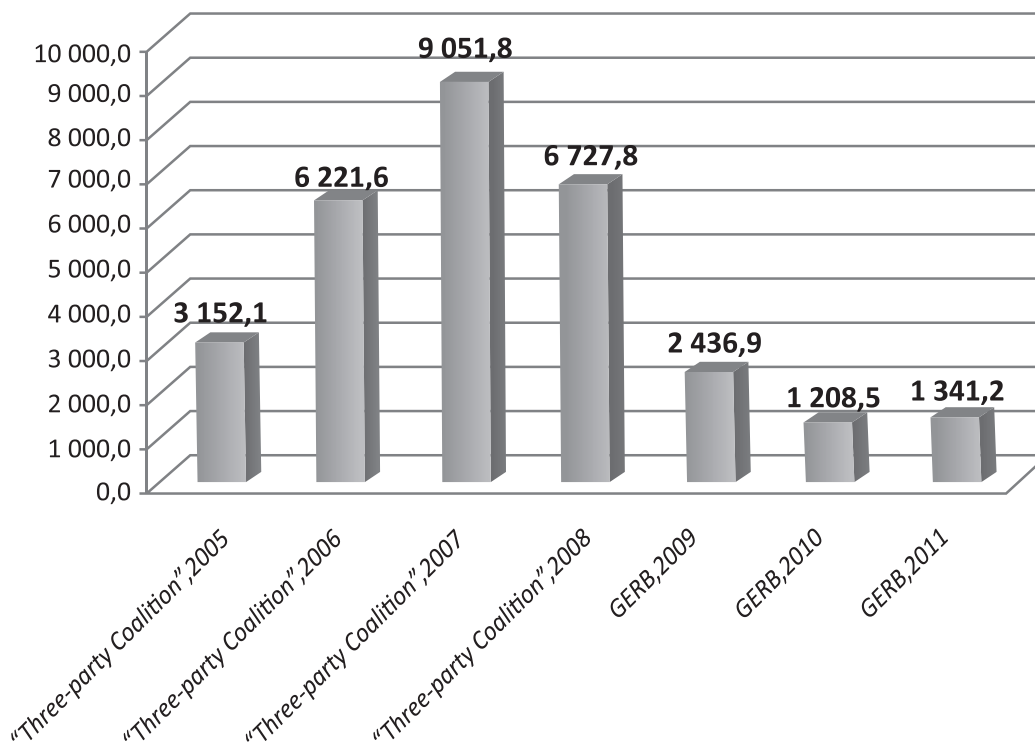
The first signs of this were detected in the periphery countries of the Eurozone (the so-called group of PIIGS)². In these countries, the virus of a long-hidden dangerous chronic disease appeared: the virus of over-indebtedness. It is true that up to the moment it has

² Abbreviation from Portugal, Italy, Greece, Spain (PIGS) or Portugal, Italy, Ireland, Greece, Spain (PIIGS). In this case, the authors refer to the second grouping (PIIGS).

not affected the Bulgarian financial-economic system (we refer to the public debt). However, Bulgaria is not immunized against the above-mentioned debt disease, because public ex-

penses are growing, incomes are lagging behind the levels it is actually necessary to achieve, and the Foreign Direct Investments (FDIs) have just been razed to the ground – Graph-4.

Graph 4. Dynamics of the Foreign Direct Investments (FDIs) in Bulgaria (in million levs)



Source: Own illustration, based on data from the Bulgarian National Bank [7]

To the question whether domestic investments and/or new debts could compensate for the drastic fall of the FDIs, we doubt that this could happen in the near future.

The state does not have any more the budget surpluses, as it used to have, as these surpluses were spent systematically, without a strategic vision for the period 2002-2008. State investments during the political mandate of the present government are minimal and unilaterally directed – mainly to road infrastructure and sports projects. Nominal wages and pensions have been virtually frozen after 2009, which has diminished significantly the domestic demand; intercompany debts exceed 120% of the GDP, which trig-

gers chained bankruptcies mainly among Small- and Medium-sized Enterprises (SMEs).

There are alternative scenarios for the external debt and a possibility for greater absorption of the funds from the European financing of the structural programs. With regard to the first tool, the government organized a bond issue worth 900 million euro; and considering the second tool, only intentions have been announced. Therefore, recovery of the balance of payments on a macro-financial scale may happen no earlier than 2013-2014, even if the situation improves.

Let us summarize: under the conditions that the governmental strategy in three out of four years of the crisis has been focused only on the goal of achieving and maintain-

ing financial stability, without this igniting any sustainable recovery of the real economy, it is logical to assume that:

Austerity policies produce imaginary stability, which inevitably has a procyclical effect. ***

Countries and governments which follow such a policy neglect the issue of equity, considering it a secondary accompanying factor. However, they are laying mines on social stability and, virtually, delaying the exit from the crisis. Bulgaria is one of the examples which blindly follow this neoliberal trajectory – before and particularly in a time of global turmoil. Also, following such a course of economic development affects not only the growth of the GDP, but also cuts jobs, and hinders the creation of new jobs, which, normally, is considered a natural process of labor market progress.

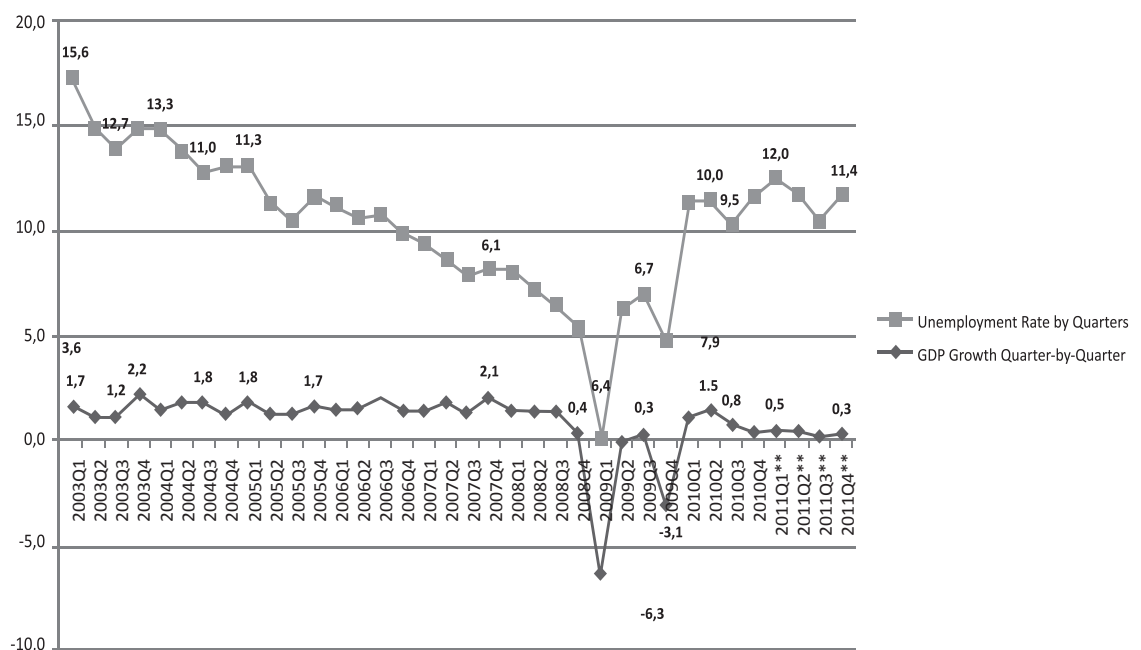
It is the impossibility of creating new jobs, as well as the mass lay-offs of the workforce, which create an escalating effect with respect to long-term unemployment. The effect of an overflowing wave is achieved:

- mass lay-offs systematically push up the level of unemployment to greater levels (by 1%-2% every two or three quarters);
- at the same time, accruing the mass of unemployed people creates pressure on the budget in terms of setting compensation payments against the risk of unemployment.

From this standpoint, it is reasonable to track back not only how the GDP growth is accumulated over time, but also how the level of unemployment is formed.

The two trends are shown in Graph-5.

Graph 5. GDP Growth and Unemployment Rate in Bulgaria by Quarters (2003-2011)



Source: Own illustration, based on data from the National Statistical Institute of Bulgaria; Adaptation from Table - GDP-1.4.2. and Table – Labour-3.1.3. Data for 2011 are estimates [3].

As can be seen from the graph, the curve illustrating the change in the level of unemployment marks three essential stages:

- The period before the crisis – unemployment constantly decreases (from 15.6% to 5%) on a quarterly basis, coupled with a stable growth of GDP, also accounted on quarterly basis;
- The moment of crisis detection – unemployment starts to follow closely the changes in the GDP growth (W-type trend);
- From 2010 up to this moment – unemployment increases rapidly, while the GDP growth is close to zero;

Explained economic relations serve as proof to demonstrate that the anticrisis measures have a procycling effect on the increase of the unemployment rate in the country; time lags are diminished to minimum and, as a result an instantaneous effect is created; that is, the negative phenomena in the real and financial sector are reflected almost automatically and negatively in the conditions of the functioning of the labor market.

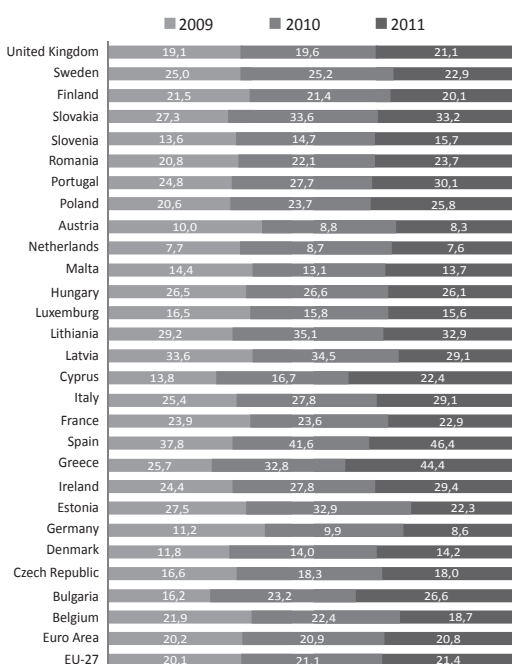
Usually, in developed economies, the effects of the real sector are transmitted by a delay of two to three quarters on the labor market; unlike in Bulgaria – the first stronger economic turmoil makes employers use “the most convenient shield” – the workforce.

However, this does not limit the negative aftermaths. It was a few years ago that a new loophole in the Bulgarian employment system emerged: youth unemployment. This indicator demonstrates that in the country unemployment rose from 16.2% in 2009 to 26.6% in 2011 for individuals in the age group 15-24, according to the statistics of Eurostat. This indicator shows that in 2009 Bulgaria was 21st in rank out of 27 member-countries of the EU, while in 2011, the country occupied 9th place in the

same rank, that is – it was among the first 10 countries in the EU which, according to this indicator, are the most seriously affected by the financial-economic and debt crisis. The indicator for youth unemployment in Bulgaria in 2011 was identical to those of Poland and Hungary. The first places, according to this indicator, were occupied by the most seriously affected countries – Spain, with 46.4% youth unemployment and Greece, with 44.4% unemployment among the young.

Graph-6 illustrates youth unemployment rates in the EU by years.

Graph 6. Youth Unemployment Rates in EU (2009-2011) (Age Group 15-24)



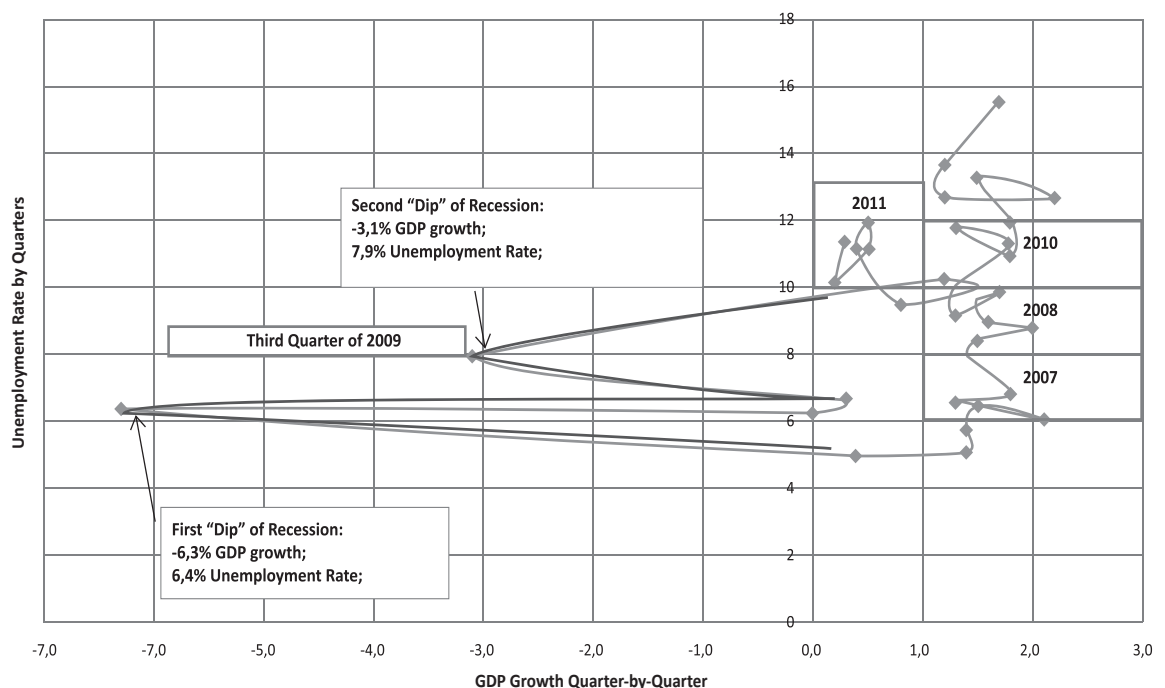
Source: Own illustration, based on data from Eurostat [8]

As a result of the neoliberal policies of austere type and of the “survival” strategies of businesses, a new attack on job security and quality of labor in Bulgaria was made (after the attack in the hyperinflation crisis of 1996/97). We believe that:

The real losers are the employed. Besides the mass loss of jobs and increasing insecurity in labor development of employed individuals in a mid-term perspective, employed individuals are also attacked through erosion of the mechanisms for fair wage practices; this questions the existence of the whole system for social security and protection against social risks.

If the GDP growth and the level of unemployment are illustrated not by time trends, but by achieved targets at different moments of time, it is very easy to distinguish not only the first recession dip, but also the second one. This interesting relation is demonstrated in the next graph.

Graph 7. GDP Growth – Unemployment Rate Interdependence by Quarters (2003-2011)



Source: Own Illustration, based on data of the National Statistical Institute of Bulgaria, Adapted from Table GDP-1.4.2. and Table Labour -3.1.3. [3]

It may be seen from the graph that in the first dip, accounted on quarterly basis, unemployment was 6.4%, and the GDP growth was (-6.3%), whilst in the second dip, when the GDP growth is again negative, but halved at level of (-3.1%), unemployment has marked a new higher level of 7.9%, or 1.5% more. This evidence confirms the idea of the "quick" double-dip, which created more shocks on the labor market.

The graph illustrates, as well, several zones, which delineate the crossing points for different time periods – 2007, 2008, 2010, and 2011.

For example, in 2007, the growth was between 1% and 2% on quarterly basis, while unemployment varied between 6% and 8%, that is, it indicated variations by a percent or two, which is reckoned to be normal and illustrates, the so-called "static" wave, which is due to seasonality or other factors of economic growth, such as increase of employment in the tourist sector, increase of construction initiatives in the warm months of the year, and other factors. A similar effect is detected in 2008.

In 2009, recession was marked (the two extended to the left bends of the curve), and in 2010, the growth was again between 1% and 2%, but unemployment reached new levels between 10% and 12%. In 2011, the growth was even lower – between 0% and 1%, but unemployment entered a new higher level – between 12% and 14%.

More detailed analysis of the quarterly data gives us enough reasons to believe that the unemployment wave turned from static to escalating. This means that:

- In the long run economic growth, as far as it exists, is a growth without creating jobs at corporate level and without creating employment at macro level.
- In other words, there is a great probability for Bulgaria to live a so-called “lost decade”, described in details in specialized literature, based on the historical performance of Japan and other countries.

Here it is appropriate to point out that when, at the beginning of the 90s, Bulgaria was about to start its democratic way of development, Japan was on the eve of a long process of lagging behind in its economic performance, which continued almost a decade. And although the Japanese government spent billions of yen to stimulate the economy of the country, it failed. Here is why we maintain the position that, if additionally stimulating an economy did not help a country such as Japan, strongly developed in an economic sense, then the test – of using austerity measures, which is applied in the present crisis in most European countries, including Bulgaria - will be, straightforwardly speaking, doomed to failure.

Furthermore, despite all the applied stimuli to recover the markets back in those days, the Japanese real-estate market severely depreciated and the construction sector, as one

of the leading sectors in the country, was seriously affected. This is a fact which can be sensed especially badly in our country, but unlike Japan, which has strongly diversified industrial production, which adds high values, Bulgaria has no more such assets. In our opinion:

The crisis in Bulgaria will be a long-term one, and it will be also stronger, as the country is de-industrialized and no longer owns national, highly competitive industrial and trade capital; in addition, the foreign capital in the industry sector is rather incidental, while in the trade sector it is speculative by nature to a great extent or the trade profits are exported abroad.

II. Structural Disbalances on the Labor Market

There is clearly profiled cyclical unemployment in Bulgaria (as was explained in the previous part), and structural unemployment; and the two types of unemployment “interfere” with one another and induce mutual effects; for a period of three consecutive years (2009, 2010, and 2011), unemployment in Bulgaria rose from 6.31% on average on an annual basis for 2008 to 10.1% on average on an annual basis for 2011, as reported by the Agency of Employment [9]. Even stronger is the effect from the crisis on the group of individuals up to 29 years of age, who are classified as “unemployed young”; for this group, the share of unemployed reached 19.1% from all unemployed; that is, every fifth young person up to 29 years of age is without a job.

Another alarming trend is that the share of continuously unemployed, that is, individuals who have registered themselves in the Employment Bureaus for the last 12 consecutive months, increased in 2011 to 35.5%. This figure demonstrates (in support of our argument from the previous pages) that, along with the

increase of the unemployment level, there is a “pressure” on the system for protection against social risks which is already established and functioning in the country. Already a third of the registered individuals have depended on social payments for a period of more than a year and they can’t find a job in the real sector, as no jobs exist there. Here the fact should be underlined that less than two thirds (57.1%) of the registered unemployed are actually individuals who have neither qualifications, nor any profession and, virtually, are outsiders, whose access to the labor market is cut off, and whose opportunities to receive transfer payments from the state become more and more limited.

These are the strongest arguments which we use to declare that:

The labor market in Bulgaria in 2011 started to get a clear crisis profile, typical for most economies in transition and for the countries from the periphery of the Eurozone – Portugal, Spain, Greece and others.

The trends which we do see are more than embarrassing. More specifically, this concerns the question of the following side-effects, which are due to the austerity measures:

- “draining” of qualified individuals out of the country (the so-called “brain-drain”);
- intensive emigration of the young people;
- formation of low return on the labor market of individuals who have higher education degree or high level of professionalism, etc.

These processes turn into a chronic disease of the Bulgarian economy; and we think that the moment, a critical point, which will be the no-turning-back point for the economy, is very close.

Furthermore, these internal conditions of the economic environment (internal factors) lead to serious macroeconomic imbalances, which grow deeper. For instance, there

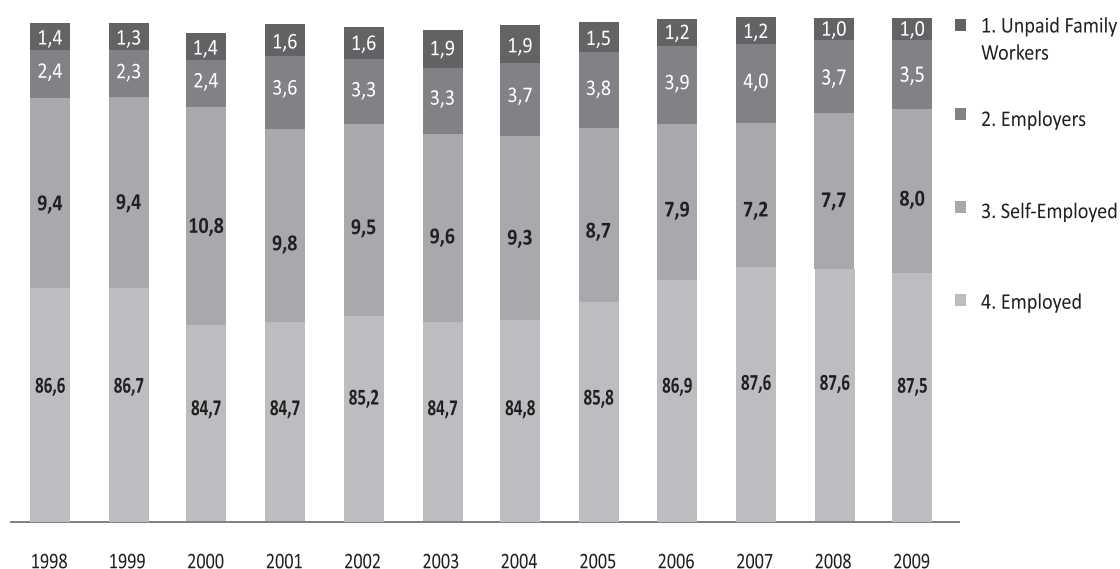
is a growth of the internal aggregated dues (among businesses, from companies to banks, to the state, to municipalities, and other places). Along with these, there are new imbalances in the segments (and between the components) on the labor market which were not so typical (or, at least, not so critical) in the period 2001-2008, which was a period with not such high growth rates.

These imbalances of the labor market may be grouped into several main categories.

Firstly, there is the diminishing importance of the primary labor market as an employment zone. This process occurs, although there is a policy to maintain the share and the resources, directed to the secondary labor market (subsidized employment through programs and measures financed by the state and EU funds) and a real boom of, freely speaking, the tertiary labor market (home-based employment, partial labor activity, to provide construction services, car repair, agricultural-related services and other individual and family-centered activities, which do not have very well established formality or legal basis in the country).

Secondly, the indicators of employment in the so-called informal labor market – of non-registered and/or individually/family employed persons score high values. In our previous publications we have paid much attention to the trend for the spontaneous eruption of a very dynamic zone of self-employment, where 400,000 individuals are considered to be involved. The Confederation of Independent Trade Unions in Bulgaria (CITUB) calculates that there are about 250,000 individuals employed in home-based jobs (including non-paid family workers). The data from the Employment Agency also underline the fact that the group of self-employed individuals turns into a very sustainable group of working people of about 8% of all employed, or approximately about 240,000 individuals or more.

Graph 8. GDP Growth – Unemployment Rate Interdependence by Quarters (2003-2011)



Source: Own Illustration, based on data from the Employment Agency; Various Annual Reports [10]

The data from the European Social Survey /ESS/ also confirm the trend which is observed in terms of the status of employment – see Table-1.

Table 1. European Social Survey Data for the Status of Employment in Bulgaria (various Rounds)

Category	ESS, Round-3	ESS, Round-4	ESS, Round-5
Year	2004	2008	2011
Employed	83,6%	85,1%	93,2%
Self-Employed	3,7%	5,5%	5,6%
Family Workers	2,0%	2,0%	1,2%
* ESS - European Social Survey; Round – waves of research			

Source: Own Illustration, based on ESS; [11]

The data demonstrate that the share of respondents who were targeted at the moment of conduct of the field research, and answered that they were self-employed, rose drastically in the period 2006-2011: from 3.7% to 5.6%; at the same time individuals, working in the family businesses decreased from 2.0% to 1.2% (which is explained as a result of the crisis and as a result of the bankrupted family businesses).

The increase in self-employed in individuals is a result of the increase in the shadow sector in the economy, as a consequence of the crisis processes in the official labor market, which we mentioned earlier.

At the same time the ESS, which is considered to be representative for Bulgaria, gives us the chance to detect on the field the real figures for the two categories of unemployed: those officially registered and those who are not registered. In the first quarter of 2011 the figures were 14.5% and 5.2%, respectively, that is the actual level of unem-

ployment in Bulgaria during the fourth year, since the inception of the crisis was 19.7% (virtually the same level as it was at the beginning of the last decade).

Thirdly, in addition to the decreasing number of employed individuals (Graph-13 of the Appendix), who were about 2.4 million individuals as of January 2008, while in December 2011 they were about 2.1 million individuals, there are also “enormous” segments functioning on the labor market, which still demand workers at a low or symbolic degree of wage returns. This is the case with those employed in the processing industry – about 483,000 individuals (see Graph-14 of the Appendix); in the trade sector – about 386,000 individuals (Graph-15); in the construction sector – about 125,000 individuals (Graph-16); in the transport sector – about 122,000 individuals (Graph-17) and so on. The number of employed individuals in these sectors constantly decreases. In addition, leading branches in the past, such as trade and construction have lost a significant part of their turnover, and the number of workers in these branches was strongly reduced; in addition, the construction companies – subcontractors, their workers, as well as the individuals involved in the trade sectors went abroad.

A special case is seasonal employment, which is detected in the agricultural sector (Graph-18) and the hotel sector (Graph-19), where the variation of the number of employed is narrowed, and the potential for temporary employment creation was reached

a long time ago in these two sectors in the Bulgarian economy.

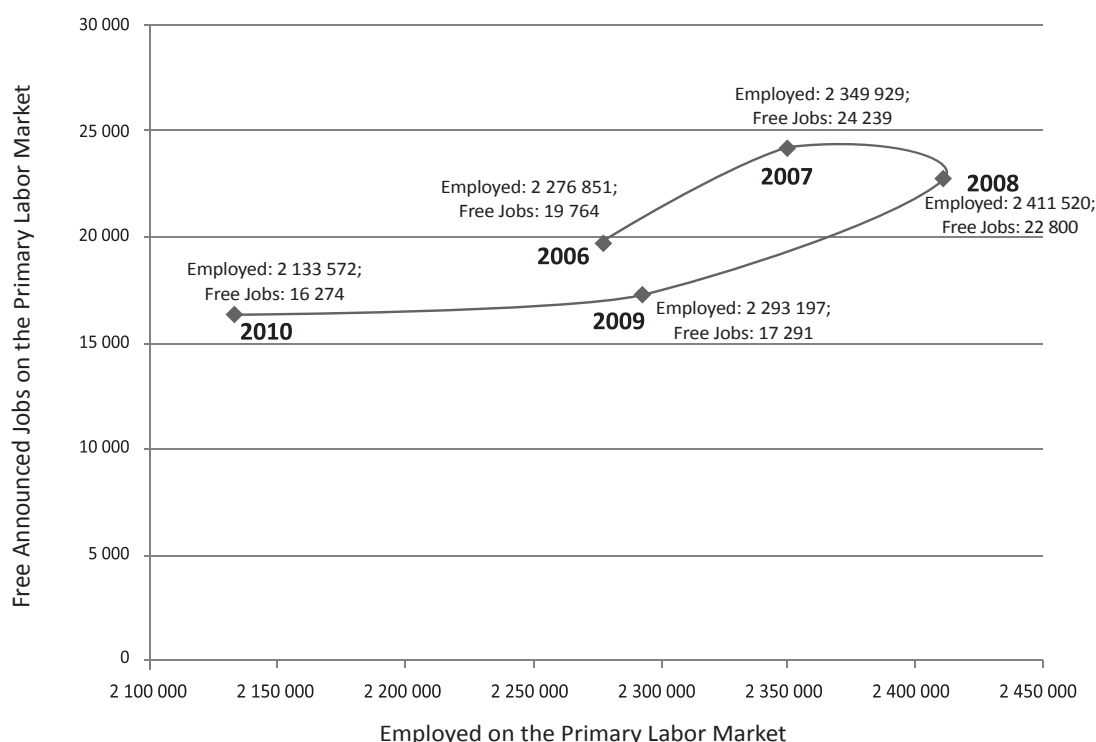
Besides, the mobile investors (or the so-called “flying capital”) abbreviated their intervals of stay in Bulgaria, mainly in the periphery and export-oriented zones near Greece in the southwest region, and near Turkey in the southeast region, which added much to the formation of sustained destabilization of geographic zones of employment in the periphery regions of the country which were traditionally developed in the past.

These interactions formed a very interesting “counter-reaction” on the primary labor market – the main field of economic activity of employed individuals. We are referring to the sustained shrinking of the group of employed individuals after 2008, without this being connected directly to the growth of the number of employed (existing and newly created) jobs.

At first glance, this gap is paradoxical, but it signifies the appearance of a known crisis phenomenon: structural unemployment. And although the share of employed people on the official labor market does not decrease (and there are even some moments, when it increases), the problem of the disbalances between the number of available and filled job positions on the market and the number of unemployed (both searching and not searching actively for a job) continues to sharpen.

These structural changes may be visualized and tracked in the next graph and the analytical texts below.

Graph 9. Primary Labor Market of Bulgaria (2006-2010)



Source: Own Illustration, based on data from the National Statistical Institute [3]

The attached graph shows that the potential to employ individuals at the primary labor market shrank (by about 2.3 million people in 2007 and 2.4 million in 2008) to almost 2.1 million people in 2010. The peak point for the Bulgarian labor market was the moment, when there were 2.4 million employed individuals. At this peak moment – in 2008, the employed individuals in the economy were at the highest possible number; after that – in the year when the crisis came – more than 100,000 individuals were left free from their jobs in only a 12 month period, while in 2010 another 100,000 people followed them. At the end of the first quarter of 2012 the Bulgarian Chamber of Commerce (BCC) signaled that 50,000 more workers were left free and there were more than 27,000 cases of company bankruptcies.

In our opinion the system for securing the social risk of unemployment does not

function and cannot create employment for individuals who have been freed from their jobs. Moreover, it has to be taken into account that national statistics counts only the declared free and available jobs submitted in the Employment Offices, and there is no way to track the true number of jobs which are created and announced by the real sector on the labor market. The actual tool of the state is strategic – to follow whether a certain labor contract is declared at the corresponding offices, and in that way to ascertain the real number of employed individuals in the economy.

Our statement is that:

Bearing in mind the specifics of the statistical methodology and the research conducted by the National Statistical Institute and the data reported by the Agency of Employment, it has never been clear to the policy makers what the actual numbers of employed and

unemployed individuals are; even if they have been informed about the exact number (that is, to get information from unofficial statistics), the accounts in the budget and strategies for employment are not based on objective data, which, in practice, has widened the disbalances.

Taking into consideration these structural changes, it is explicable why, after the eruption of the crisis, a very paradoxical – at first glance, but a logical market inversion occurred:

- Unofficial employment (the informal labor market) expanded its perimeter;
- Official employment (the formal economy) shrank by another 10%-15%, compared with the first half of the past decade;

Approximate values in the levels of formal and informal employment (48:52 – based on the data of Associations of Employers and Trade Unions) are a purely statistical indicator; the shift has macroeconomic and fiscal effects; however, the reasons for the second rise of the informal employment (after the peak in the 90s) are sociological; the informal sector proved to be a very efficient tool for family, group and individual survival in the conditions of a continuous crisis. Moreover, in Bulgaria as well, the symptoms to create a new “dangerous” class, the so-called “precariat”, are so evident; this theoretical description is due to Prof. Guy Standing.³

Thus, this turns into the standpoint for our prognosis:

The labor inversion will probably happen to be not a temporary, but a lasting phenomenon, which necessitates reconsideration of the overall policy in terms of the informal labor markets.

In actuality, the process has already begun, because the state of Bulgaria seemingly diminished its efforts to administratively limit the informal sector, introduced regulations for the home-based labor (contracts and securitization of social risks), based on Convention 177 of the International Labor Organization (ILO), etc. There are measures, as well, to regulate distant-work activities. Therefore, our conclusion in terms of the initiated changes is the following:

There is a new subclass being formed in Bulgaria – the so-called “precariat”. The impulses for this social degradation came at first as a result of the application of the neoliberal concept to deregulate the labor markets; and thereafter this was followed by the destructive effects of the crisis.

III. Deformations and Dysfunctions of the Labor Market

As a result of the dogmatic following of the austere policies in the four years of the present political mandate, the Bulgarian labor market is seen to have sustained structural disbalances. In turn, these disbalances lead to lasting deformations of the main mechanism of the market. Some of these disbalances were constructed in the transition period, bearing in mind that the experience of developed market economies was introduced; these are primarily the system for preparation and re-qualification of individuals; promotion of new forms of employment, social security payments to individuals in times of unemployment and others. Others emerge in a natural way, in parallel with the development of the market relations: individual and family strategies for employment; wage formation of the workforce; dynamics in demand and supply of the workforce by sectors and regions, and in other ways. A third group of disbalances – for example the social dialogue, are directly

³ The authors refer to the new book of Guy Standing 2011, *The Precariat: The New Dangerous Class*, Bloomsbury Academic

transmitted in accordance to the contractual clauses to access the EU. Consequently, it is a matter of a complex constellation of mutually dependent institutions, procedures and practices, which have been built and matched over the course of two whole decades. When a subsystem of the labor market suffers some damage, this triggers a chain effect. As we witnessed, the damage in the heat of the crisis (the so-called second phase) affected the most important part, which actually “fuels” the all motion of the market machine: creation of new jobs. From this moment on, when there is a lack of proper governance, the unbalanced labor market inevitably turns into a distorted market. Some of these deformations accrue in a wave-like style and turn into malformations; a menace to block the whole system is on its way. Regrettably, distortions are seen not in lowest-in-rank mechanisms of the market, but in primary mechanisms, which actually drive the system of employment – such as setting wages and securing the employed against social risks.

Firstly, uncontrolled mass layoffs ignite the labor market, so that the employment system, which is based on the laws of supply and demand, turns into a field to serve the remaining free individuals and continuously unemployed. This is the reason to have a strong change of attitude of the state towards the policies applied on the labor market. Before the crisis, the state governing philosophy was to follow the neoliberal principles of no intervention and deregulation of the “free” market relations. Four years later, the more “non-useful” Bulgarians who are capable of working become left without any job, so there is greater pressure (direct – of those who are set free from work; and indirect – of the Trade Unions) for active state intervention in all the chain of the relations: from the point of preparation of individuals, through job recruitment and job placement, through social securitization in cases of unemployment, disability, bankruptcies, etc. The majority of businesses – particularly the

management in the Small- and Medium-sized Enterprises (SMEs), insist on having state support, as well. Along with the deepening of the crisis and entering a phase of depression, this regulatory and paternalist role of the state will become greater, inevitably. The boomerang, speaking more freely, is coming back: the market fundamentalists, who recommend absolute deregulation of the labor market, are receiving growing pressure for more state action!

Secondly, consciously the distance maintained over the years between the growth and productivity of labor and increase in the working wages reached its highest point and now it produces systematic negative effects (from the viewpoint of competitiveness of the workforce). It is blatantly obvious that it is a methodologically unreliable (as we mentioned above) practice of employers, the state, and the European Commission to intentionally distort the data for the proportions between the labor productivity and the working wages, as both socially and market incorrect. The economic crisis has made this fact quite clear.

After a century and a half the Bulgarian labor market was promoted as “a piece of paradise”, having a uniquely low cost of labor, now the labor market is on its way to losing this pre-crisis competitive advantage. Deformations are twofold:

- De-motivation of those who want to achieve greater professional qualification;
- A “dip” of the business in the shadow sector, where it may save money by not paying taxes and social security contributions, having the silent agreement of the employed workers and the passive role of the Trade Unions;

Thirdly, the boom of unregistered employment (often non-precisely defined as the black economy) delineates a new, controversial perspective of the segmentation of the labor market. Until the eruption of the economic crisis in

2008 this type of employment was considered as an unpleasant offspring of the “healthy” official economy. It was thought that with the elapsing of time, this offspring would self-destruct or would be “cut-off” by administrative measures or bans. It is a fact, however, that the crisis has given a new impetus to unregistered employment. In numerous developing economies – unregistered employment as a sphere of employment has turned into the larger sector compared with the officially employed; it is obvious that in the developing countries the informal sector has enlarged. Some research shows that the informal economy makes it easier for the countries to exit the crisis – for example, such is the case with Germany.

The problem is rooted not only in the distorted proportions between the formal and informal labor market, but also in the fact that the working people in the informal sector “get accustomed” to the specific regiment of “employment”, specifics of working, remuneration, social securitization and other factors. In this way, the so-called “culture of informality” is created; and the new generations fall into this gap of informality. It happens then, that young people start their first job in the informal economy and until the very end of their working life they seem to have no chance to get out of it. Here the labor market deformation turns into malformation; and against this disease there is, up to this moment, no effective treatment.

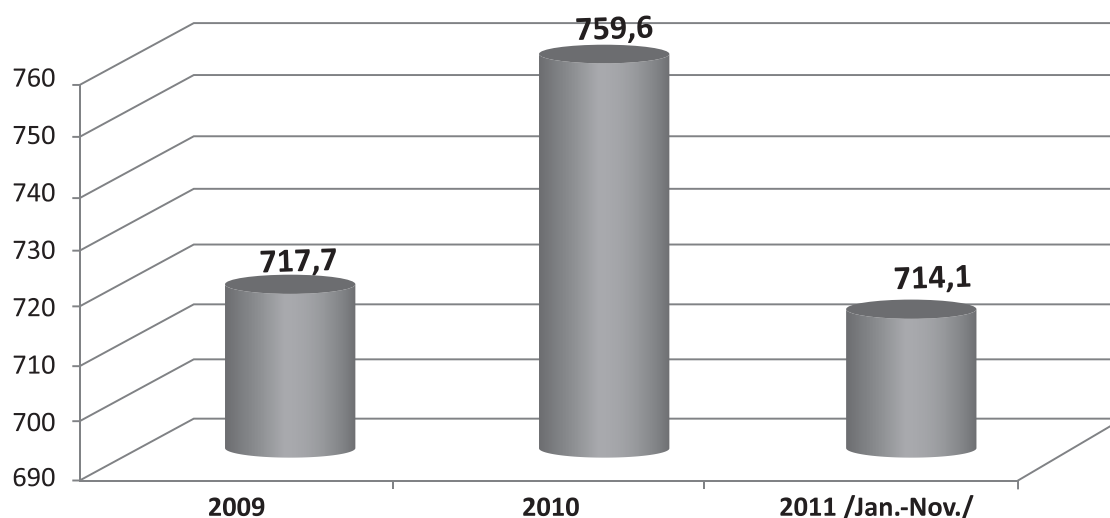
Fourthly, closing and narrowing the national labor market uncaps again the channels for economic migration. This issue needs a separate and thorough review. Here, we will just point out some of the characteristics of the crisis-produced migration, which support the view of a complex deformation of the Bulgarian labor market.

- The new migrant wave (after 2008) occurred after the accession of Bulgaria to the EU; however, the time span for this migration wave to occur was provoked

rather by the crisis, and not by the widely promoted European perspective for greater free movement of the workforce. This conclusion comes as a result of comparing the data showing the liberalization of the workforce with the data showing the trans-border migration; in addition, sociological research demonstrates that the main reason for an individual to leave the country is to search for a job abroad (note: before the crisis the very main factor to attract migration was “the better jobs at a better pay”).

- Among the migrants, there are three groups:
 - Highly qualified professionals – there is demand for them in Bulgaria, but the payment in comparison to the payment in developed countries is humiliatingly low – for example, the group of doctors and nurses;
 - Young adults – they are lacking the chances to start an appropriate first job in Bulgaria;
 - Minority groups (the Roma population and Turks) - who suffer extremely from social and labor market exclusion; this exclusion crowds them out of the official market;
- Remittances of migrants (money transfers from abroad to Bulgarian families) - these remittances replace other traditional sources of income for household budgets. This channel was launched in the 90s. In the past decade the Bulgarian National Bank applied a methodology to compute the official remittances, and this methodology was updated in 2011. This updated methodology is used as a basis to compute that, for the period of the crisis, the transfers from migrants have permanently exceeded the “psychological” level of 700 million euro per annum.

Graph 10. Official Remittances (transacted through a Financial Intermediary) of Bulgarians who reside permanently abroad (in million euro)



Source: Own Illustration, based on data from the BNB [12] and the Methodology for Evaluation of Remittances of Bulgarians Who Reside Permanently Abroad [13].

There is nothing wrong with this trend. This is the picture in the most countries that send migrants abroad. The problem in the Bulgarian case is that the remittances of migrants do not simply supplement, but more often replace the other income of sources from labor. This distorts the traditional structure of the household budgets and alters the ways of life and life strategies of Bulgarians. Bulgarians become passive, dependent from external, temporary sources of income to maintain their families. Speaking simply, the family does not produce and does not earn money, any more (families do not function as main economic units); families consume.

Here is the place to track deformations in the mechanism of the labor remunerations and its primary components – price of the workforce, minimum wage, productivity of labor, nominal and gross wages, and other factors. If blocking of the conveyor which creates new jobs is the first serious damage to the system of the Bulgarian labor market, distortions in the way wages are formed is the next damage, equal in scale. Structural unemployment blocked the high-tide and the renewal of the workforce; stagnation of wages, bear-

ing in mind that it repeats after numerous years, de-motivates the workforce. Finally, both things lead the Bulgarian economy on a steeper downwards road – towards a loss of competitiveness and efficiency.

This distortion is thoroughly researched. It is a proven fact, and one that we are reminded of numerous times, at expert and political levels, that wages in Bulgaria are the lowest in the whole of the EU. When there is repetition of a fact of this kind, a study should be initiated regarding the reasons for this unpleasant trend, with a view to removing them in a realistic time span.

If we make a short retrospection of the debate on this issue, we will find that there are two explanatory views, which are repeated numerous times:

- Thesis Number One: Bulgarian wages are low (and are subject to systematic limitations of the growth), because the strategy of countries with scarce domestic capital is followed; it is supposed that the lower the price of labor, the more attractive it will be for foreign investments

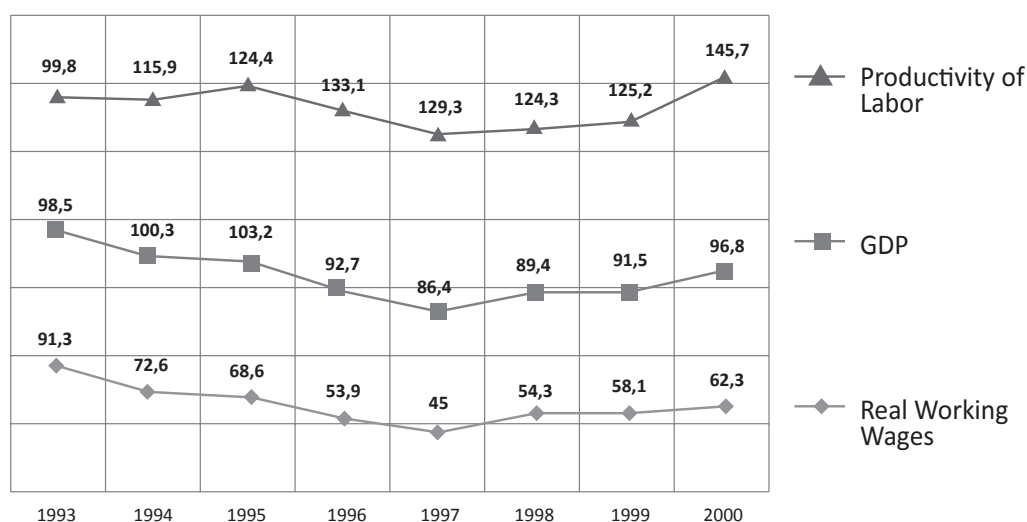
in the economy of the country. As it was demonstrated earlier, the data do not confirm such a kind of reasoning. The crisis is not the only reason for the FDIs to drop – all objective research proves that a direct correlation between the price of labor and FDIs does not exist.

- Thesis Number Two: Bulgarian wages are low and will remain low, because they lag behind (and we mean significantly behind) the productivity of labor. This is the official mantra which is used in explaining the lack of progress of the Bulgarian strategy to catch up with the average European levels of incomes from labor. Even if this is true, this viewpoint does not explain the reasons why Bulgarian business, as a rule, uses cuts, delays of payment and non-payment of the contracted wages, immediately when the business faces some challenges as a result

of the competition and problems with the placement of the production; moreover, it is questionable why businesses do not apply the alternative and very efficient strategy of innovations and technological advancement, which will, for sure, bring about an increase in the productivity of labor.

The argument for “logical” incompatibility between wages and production of labor may be attacked in two ways: by statistical validity of facts; and by motivational incompatibility. Alternative economic computations conducted by Bulgarian experts in income policies prove in a sound way that, whether in the 90s, or before or after the accession of Bulgaria to the EU, wage levels have not been greater than the growth in the productivity of labor; in fact, wages in certain time periods have increased at a lagging rate. These trends are seen in the next graph.

Graph 11. Cumulative Indices of Labor Productivity, GDP, and the Real Working Wages in Bulgaria /1993-2000/



Source: Own illustration, based on data from Zhelyzakova M., 2011, *Inequalities and Policies. Distances between Bulgaria and the European Union*, [In Bulgarian], p.35 [14]

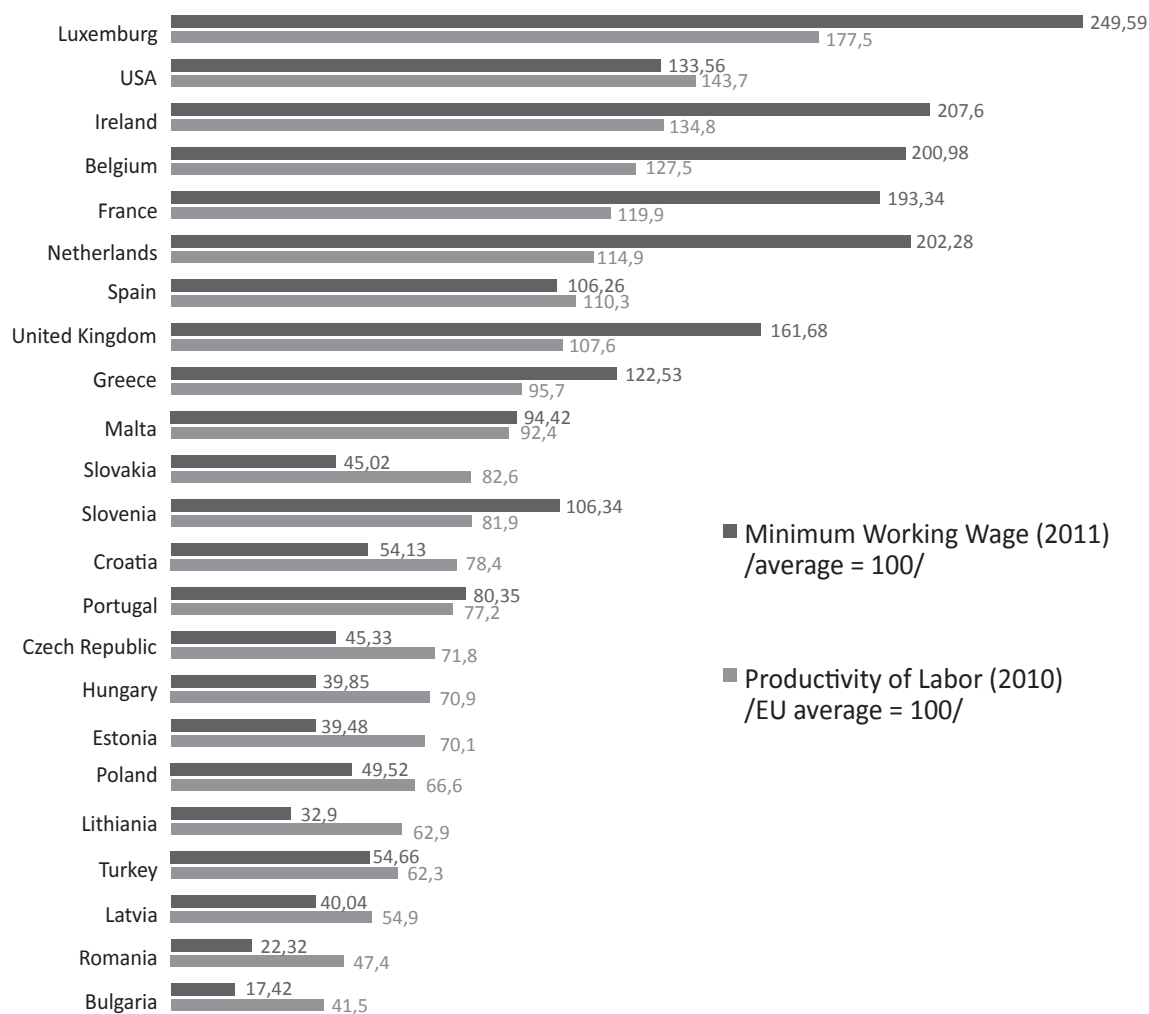
The data from Graph-11 illustrate the fact that in the period 1993-2000 the dynamics of productivity of labor increased (reaching a value of 145.7 in 2000, given a basis

of 100 in 1992); while in wages this value decreased and fell to 62.3, given a basis of 100. This means that the growth of productivity during the period researched rose by

approximately 46%, while the real working wages decreased by approximately 38%, or the total size of the divergence is 84%.

This gap is preserved in the second half of the past decade and observed today – Graph-12.

Graph 12. Indices of Labor Productivity (2010) and the Minimum Working Wage (2011) for Some Countries



Source: Own illustration, based on data from Zhelyzakova M., 2011, *Inequalities and Policies. Distances between Bulgaria and the European Union*, [In Bulgarian], p.37-38 [14]

The graph clearly shows that: firstly, Bulgaria occupies the lowest position in the ranking in terms of the minimum working wage (MWW); and secondly – the gap between the productivity of labor and the minimum wage is extremely high. As can be seen – in developed countries – the MWW is higher than the productivity of labor, which proves the fact that the MWW plays not only an economic role (linked to productivity), but it also

plays a social role. This line of reasoning is far from the viewpoint of a great proportion of the Bulgarian employers, who reckon that wages should not have social functions.

When it comes to motivational incompatibility, we are referring to the following:

Periodic signals, expressed publicly by conservative policy makers in Bulgaria, which are supported by the lobbies of market fundamentalists (as well as in a pre-

scribed recommendation of the European Commission), that nominal wages which are “dangerously” greater than the productivity of labor serve more like indulgencies for businesses which systematically make wrong judgments and evaluations about the way to make profits more easily and quickly: either to set the wages at levels below the rate of labor productivity, or to motivate the staff with adequate wages, coupled with investments in organizational and technological innovations. By tradition, Bulgarian businesses (with few exceptions), created in the period of the economic transition choose the first option.

The result of these actions is sustained demotivation of the staff to achieve high productivity results, to maintain high quality of labor, to propose innovative decisions and other effects. Demotivation, coupled with “forgetting” such values as quality of labor and high productivity, in our opinion, turned into a permanent stigma of the “new”, post-socialist culture of labor of the present generation of workers and professionals.

The problem is not only of generational nature; it appeared as a result of systematic negligence of one of the main market principles: effective pay for effective labor. The problem is not only of Bulgarian origin, it is pan-European. As notably said by Verena Schmidt and Daniel Vaughan-Whitehead⁴ in some recent research about the influence of the crisis on the wages: *While a lot of attention has been deservedly given to the financial roots of the current economic crisis, the role of wages as a cause of the crisis as well as a solution to the current economic predicament have yet to be fully understood.*

In summation, disbalances on the labor market generate systematic deformations on the labor market mechanism and dysfunctioning of the whole market system.

In our opinion, the great threat here is the blocking of the functioning of really important systems of the market. Put in other words, a worse scenario than the distorted market is the non-working market!

The Bulgarian labor market is getting closer to this moment – partly because of the more and more frequent cases of failure of the real sector, partly because of the inadequate anticrisis measures; and austerity policies are, namely, such a kind of drivers of disbalances, deformations and dysfunctions.

Conclusions

In this paper we have followed the stairway-like descending transformations in the Bulgarian economy, which originated as a result of the application of austerity policies, considering a significant volume of statistical material to prove that. The data we utilized in the analysis show that there are three layers/horizons of negative/erosive effects of the austerity measures:

- The macroeconomic horizon, which is already is set in motion by the so-called “devious circle”: to impose austere measures for budget limitations and fiscal stability, which deprives the state, businesses, and social partners of a space in which to maneuver and apply alternative models to exit the crisis; submission of the real sector to financial parameters, which are provided by the legislature; shrinking of the economy and consumption, which in their turn decrease the proceeds to the budget and triggers application of even more serious austerity measures.

⁴ Verena Schmidt, Daniel Vaughan-Whitehead, 2011, *The Impact of the Crisis on Wages in South-East Europe*, Budapest, Hungary

- The labor market horizon, which reflects the macroeconomic measures. Slowing down of the economic growth (and furthermore – causing a repetition of recessions), frees new manpower out of the zone of motion of the “normal” labor market; the excessive workforce is directed to go out of the country – abroad or to the informal sector, which distorts not only the profile, but also the way of functioning of the labor market. In conditions of chronic deficit of resources (due to fiscal limitations imposed by the packet of austerity policies), the creation of new jobs goes down in the priority lists (actually, it is a matter of momentum to create jobs). Labor activity abates, and the system pressure on the growth of working wages reduces consumption and decreases the proceeds to the budget. A second devious circle is set in motion, which plays an erosive role on the labor market.
- The microeconomic horizon, which is known to have processes which affect the individual, family, and group strategies to survive and adapt in the period of crisis. The main driver for labor activity is not whether a job is attractive and the pay is high, but security in the job. This shift in the structure of the labor motivation and its long-term consequences are undermined. The problem, however, is not only of a psychological nature; insecurity of the

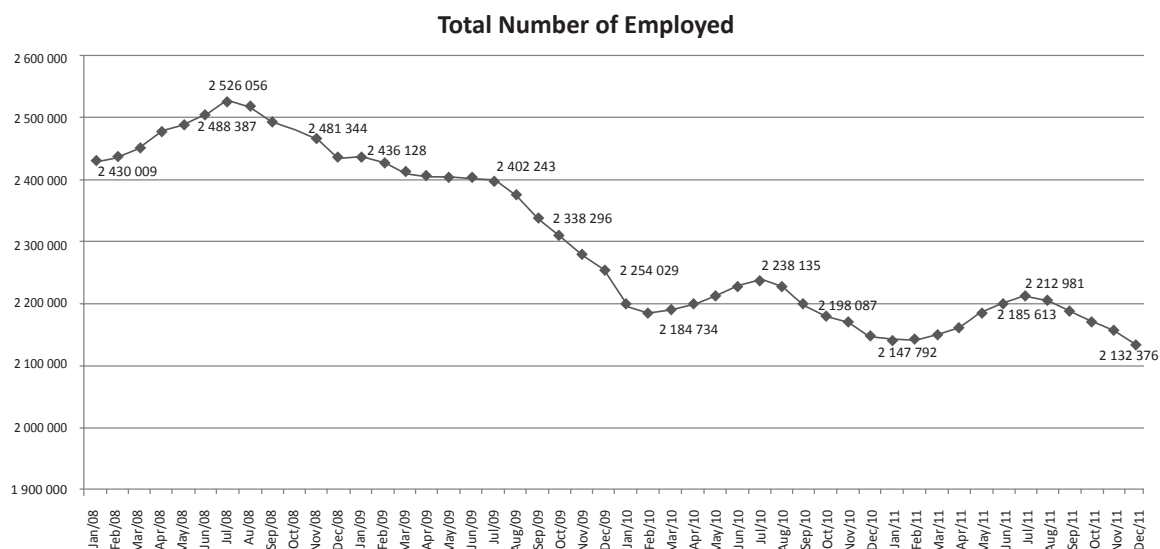
job/employment is an indicator which proliferates over the overall life-cycle of the “crisis man”. Even if he does not realize this, every individual and his family must tune-up their strategies in such a way that reactions to dangers and risks are provoked, rather than reactions to positive options of life.

A system of employment and, more generally speaking, an economy which is based on insecurity has no future!

Bearing in mind this, an issue to normalize/revitalize/ the labor market, which was hit by the crisis and systematically subjected to erosive actions by austerity policies, is on its way. It is questionable whether it is necessary to recommend alternative/specialized measures to restore the functions and effectiveness of the labor market. If the prime reason for dysfunctions is the austerity policy, as we believe, then the change must start from this. There is no need to wait for a new period of four years in order to be convinced that the stubborn application of a policy of austere fiscal limitations, coupled with negligence of the options for growth, will bring the national economy to a standstill. Economic growth is necessary, not only since it is the target to achieve, but also as a tool to stimulate the development of economic perspectives based on new employment and effective jobs on the market.

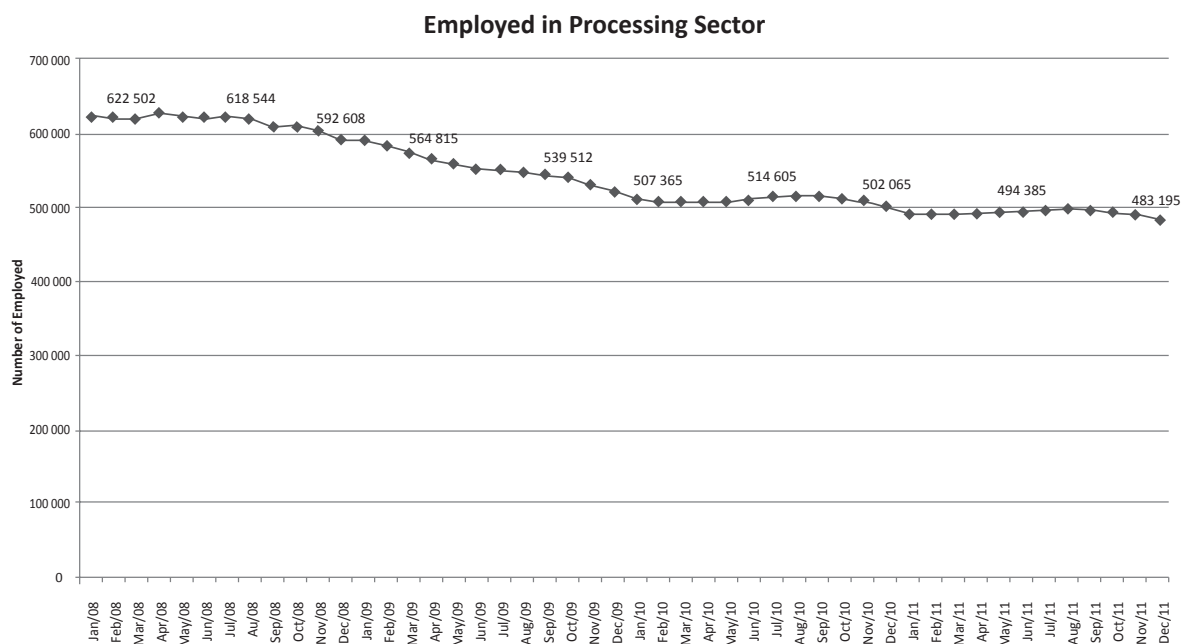
APPENDIX – Employment in Some Economic Sectors

Graph 13. Total Number of Employed Individuals in Bulgaria (by months; 2008-2011)



Source: Own illustration, based on data from the National Statistical Institute of Bulgaria [15]

Graph 14. Employed in the Processing Sector (by months; 2008-2011)



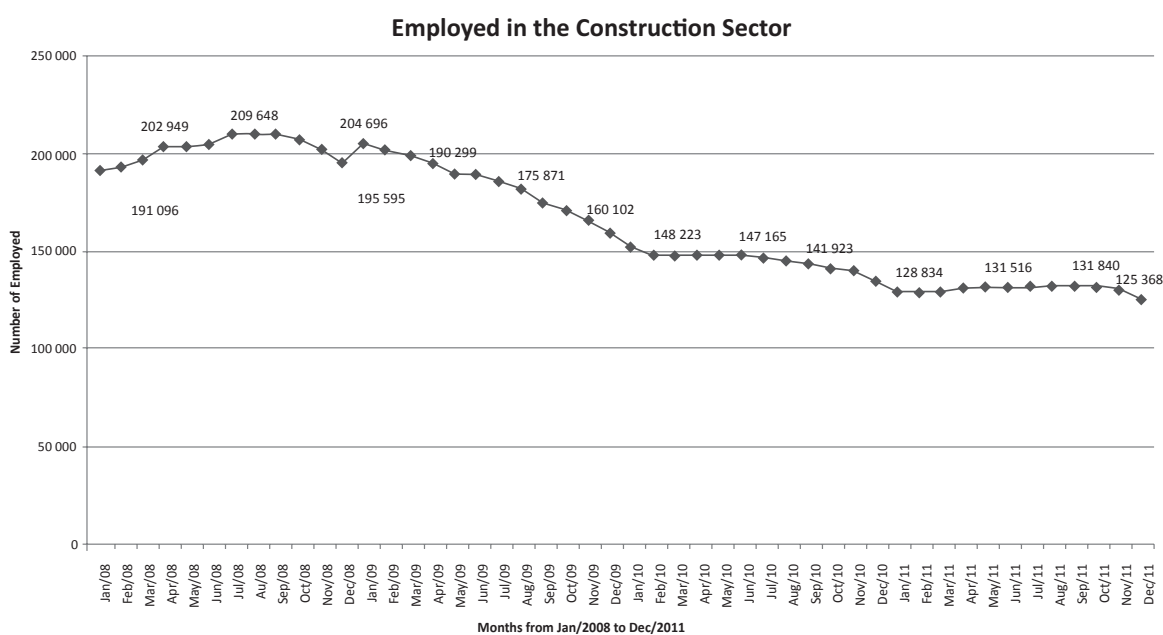
Source: Own illustration, based on data from the National Statistical Institute of Bulgaria [15]

Graph 15. Employed in the Trade Sector (by months; 2008-2011)



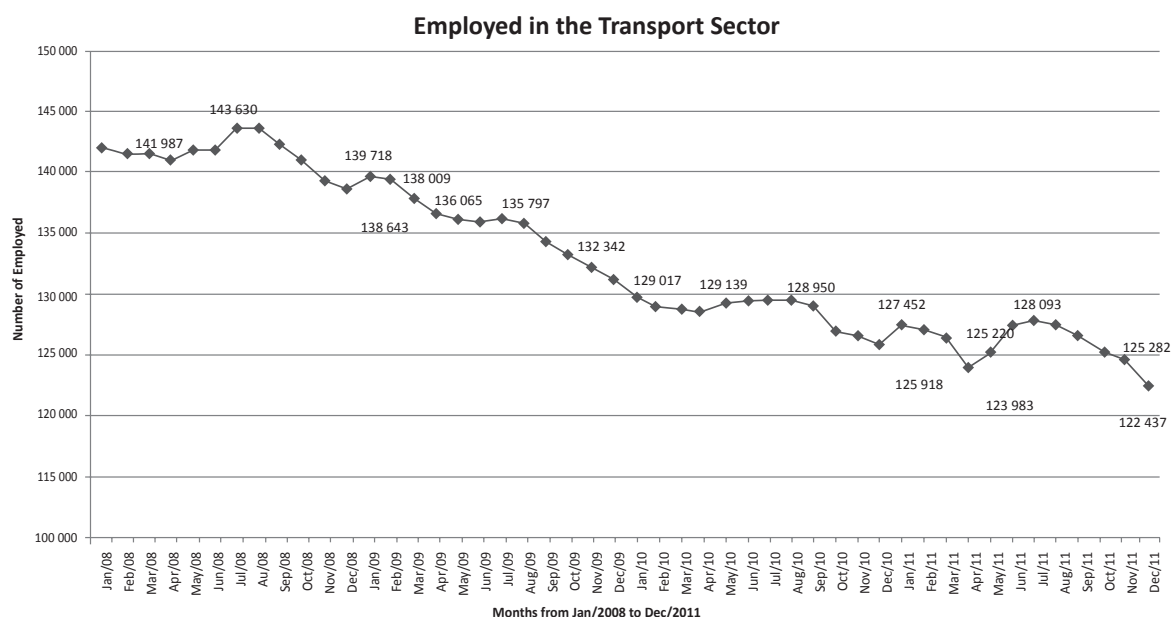
Source: Own illustration, based on data from the National Statistical Institute of Bulgaria [15]

Graph 16. Employed in the Construction Sector (by months; 2008-2011)



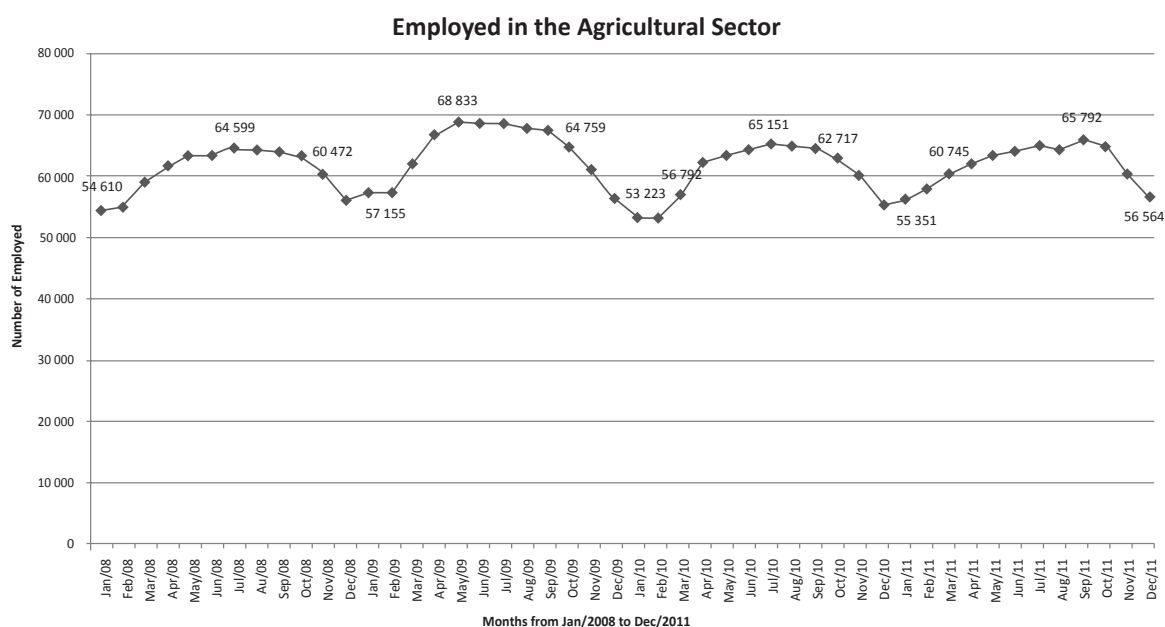
Source: Own illustration, based on data from the National Statistical Institute of Bulgaria [15]

Graph 17. Employed in the Transport Sector (by months; 2008-2011)



Source: Own illustration, based on data from the National Statistical Institute of Bulgaria [15]

Graph 18. Employed in the Agricultural Sector (by months; 2008-2011)



Source: Own illustration, based on data from the National Statistical Institute of Bulgaria [15]

Graph 19. Employed in the Hotel Sector (by months; 2008-2011)



Source: Own illustration, based on data from the National Statistical Institute of Bulgaria [15]

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