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**The Employment Crisis, Pensions and Poverty in Bulgaria  
1990-1998. Trends – Consequences – Preventative measures**

by

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Industrial and Social Policies in Countries in Transition

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# **The Employment Crisis, Pensions and Poverty in Bulgaria 1990-1998. Trends – Consequences – Preventative measures**

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*Abstract:* After promising beginnings towards transformation, in 1991 the Bulgarian economy fell into deep crisis in the period from 1995 to 1997. Social policy, already overstrained due to the demands of transition, was unable to cope effectively with the rapidly spreading state of emergency. The following essay analyses the development of the social indicators and instruments of social security in the years 1990 to 1998. In addition to unemployment and unemployment insurance, the issue of pensions and poverty will also be examined.

## **1. Introduction**

The transition from dictatorship to democracy, and from a centrally administered economic policy to a market economy, can be seen in all countries in transition as being a difficult and time-consuming process. The collapse of Communism was for many, in spite, or perhaps in fact because, of the permanent state of crisis, a huge surprise. In 1989, as Poland set forth on the way towards a new society, there were neither empirical examples nor theoretical models demonstrating how a comprehensive transformation of society ought to unfold. The numerous analyses of system transformation which have been developed in the meantime all show<sup>1</sup> how complex the problems are, and how tightly the network of various interdependent components are inter-woven. When giving up on centrally organised control of economic processes, as well as the comprehensive rationing of production factors and goods, a functioning price system as the allocation instrument is a pre-requisite. However this was not in existence in the communist countries. The liberalization of prices, after decades of politically determined

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<sup>1</sup> For an overview see Gros/Steinherr (1995), Dewatripont/Roland (1996), Petersen/Sowada (1998).

regulation, which themselves had nothing to do with actual shortages, by necessity led to a period of adaptation and a devaluation of the currency.<sup>2</sup>

Although economically mandatory, in due course this led to greater economic destabilisation. And a successful transformation is inconceivable in the absence of far-reaching changes to the institutional and legal framework, and similarly significant changes to economic structures and property rights. Another pre-requisite, however, is a functional money economy, which in the affected countries at the beginning of the reforms had neither an institutional foundation, nor was it able to halt the rapid fiscal devaluation.

The transformation of the economic and political fundamental order was, and remains, tied to considerable social costs. These resulted from both the collapse of customary social positions and social welfare systems, as well as the people's inability to adapt to the new relationships and regulations. People in the former communist countries were, for example, used to being able to rely upon the State for assistance in all kinds of situations. Individual initiative was not only unnecessary but was seen as a threat to the power monopoly of the Communist Party bureaucrats, and was thus undesirable. In the new systems, however, considerably more self-sufficiency and personal initiative was required.

The most readily apparent negative consequences of the collapse of Communism must surely be unemployment and poverty. Every transformation country was affected, but after nine years, the situation in each of the countries remains vastly different. Unlike Poland, Hungary, the Czech Republic and the Baltic States, where the transformation process proceeded at a relatively advanced pace, the countries in South East Europe have been left far behind. This is in particular true in the case of Bulgaria, a country which actually was one of the pioneer nations. Following a promising start in 1990, albeit one which, as in other transformation countries, manifested itself in exploding prices and imploding production rates, the situation stabilised temporarily. After that, however, Bulgaria lapsed into a much deeper crisis, the reasons for which were many and varied. The most dominant cause would have to be the fact that the nation's economic policy was in a position of stasis, which was in turn contributed to by the opponents of market economy reform. In a pit of corruption and unchecked privatisation, benefiting both the old and new authority figures, in 1994 the changes to the system essentially came to a standstill.<sup>3</sup>

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<sup>2</sup> cf. Petersen/Sowada (1995).

<sup>3</sup> For individual instances of politically regressive moves, cf. Institute for Market Economics (1997, p.1 ff.).

The economic crisis worsened the already poor living conditions of the Bulgarian public. In light of high unemployment and extreme poverty, the support for the necessary, but painful reforms, decreased.<sup>4</sup> The entire social policy, which ought to have alleviated the extreme social need, instead limited itself to crisis management which was also, in terms of the quality rendered, rather modest. There didn't appear to be a more long-term strategy even under consideration. In particular in relation to the social focal point, unemployment, it can be said that there were omissions or even complete failures in certain respects.

The following article begins with a short overview of the economic crisis in Bulgaria in the years 1990-1997 in section 2. In section 3 there is discussion of the Bulgarian attempts to support the unemployed by means of some kind of unemployment insurance. The majority of the transformation countries sought relief for the job market by expanding the opportunities for recipients of the old-age or disability pension. In section 4 we will review the extent to which Bulgaria adopted this model. In section 5 the problem of poverty and social welfare will be examined, followed in section 6 by a summary.

## **2. The employment crisis**

### **2.1. The macro-economic situation**

Bulgaria underwent a collapse of industrial production and the economy as a whole in a manner which was typical of all the transformation countries in the first phase of transition, but then in 1994 and 1995 saw gentle economic stabilisation. Positive rates of GNP growth at approx 1.5% (see Table 1) were, however, short-lived. In 1996 Bulgaria slid into yet another crisis, followed by extreme difficulty in supplying basic foodstuffs in 1996 and 1997. The direct cause of the scarcity in food provision lay in the machinations of the ruling post-communists, who had managed to export almost the entire 1995 harvest.<sup>5</sup>

In a manner similar to other East and Middle European countries, Bulgaria also leapt into transformation with dramatic price rises. The deregulation of prices as a counter-measure against the increased rate of inflation, which in turn resulted from the communist regime, came to an end in 1991, with a rate of price increase of 573.7%. The renewed explosion of the price index from 1996 was, however, not a hangover from socialism, but rather a result of a failed monetary policy, which was concentrated above all in the maintenance of the budget

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<sup>4</sup> See Müller/Petersen (1992) and (1995, p. 131 ff.) on problems relating to acceptance.

<sup>5</sup> See also Documentation (1996).

deficit. Unlike Poland and the Czech Republic, Bulgaria didn't succeed in redeveloping its government finances.

*Table 1: Macro-economic development in the years 1990-1997*

	1990	1991	1992	1993	1994	1995	1996	1997
Growth rate of industrial production (in %)	-16.8	-20.2	-18.5	-9.8	10.7	4.5	3.8	-10.2
Growth rate of GNP (in %)	-9.1	-8.4	-7.3	-1.5	1.8	2.9	-10.1	-6.9
Rate of inflation <sup>1</sup>	150.6*	573.7	179.5	163.9	221.9	132.9	410.9	678.6

<sup>1</sup> December of the previous year = 100

\* Rate of inflation from May to September 1990

Source: NSI (1991, p.76), (1994, p.57), (1995, p.223), (1997b, p.161), (1998a, p.71 ff.), (1998c, p.6), Social Welfare Ministry (1997, 1<sup>st</sup> edn.).

With the collapse of the national economy, Bulgaria was confronted with the previously unknown phenomenon of unemployment. Indeed, full employment had always been touted by the communist propaganda as the 'achievement' of Socialism.<sup>6</sup> Within the permanent 'shortage economy', carrying out the promise of the right to work was, of course, not really a problem. Businesses were in fact practically forced to employ as many people as possible, so that (a) in the case of irregular delivery of raw materials and partially-completed components, these could be put together as quickly as possible, and (b) to increase revenue, since this was always calculated in relation to its impact on costs. The diminution in guaranteed employment consequently presented a particularly great shock because the social systems were wholly unprepared for the problem of unemployment. At the same time, depicting unemployment as a necessary cost of transformation denotes a misunderstanding of the issue. Instead, the cause was the inefficiency of socialist means of production, which sought to balance out the lack of capital by over-employment in the workplace.

## 2.2. Employment trends

The number of people in regular employment fell by a million between 1989 and 1998, a decrease of almost 25%. Half the jobs in the public sector were abolished, replaced in part by the private sector, but in some respects without any replacement being established. The private sector was not able to compensate fully for the loss of positions (see Table 2).

<sup>6</sup> See also Götting (1998, p. 62 ff.).

Table 2: *Employment and unemployment, 1989-1998*

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Annual average employment levels ('000)	4365	4097	3564	3274	3222	3242	3282	3286	3157	3106
Annual average employment levels - the public sector ('000)	4085	3855	3204	2695	2303	2066	1949	1728	1412	1285
Annual average employment levels - private sector ('000)	280	242	360	579	912	1167	1333	1557	1745	1821
Registered unemployed ('000)		65	419	576	626	488	423	478	524	465
Unemployment rate (%)		1.7	11.1	15.3	16.4	12.8	11.1	12.5	13.7	13.0

Source: NSI (1992, p.29), (1994, p.85, 87), (1995a, p.45) (1995b, p.86-87 and 92), (1996, p.50), (1997, p.78-79), (1998a, p.38, 42, 44), (1999, p.46 and 56), Institute for Social and Trade Union Research (1998, p.57f.).

The abolition of jobs affected the various sectors differently (see Table 3). The most significant reduction in positions was in the industrial and building sectors, for example the number of employees in industry fell by 47%. For the economy as a whole, this meant a loss of almost 775,000 jobs, while in the building industry more than 60% of jobs were lost. Surprisingly, agriculture was an area of relative stability.

Table 3: *Employment trends in certain sectors of the Bulgarian economy*

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>TOTAL economy ('000)</b>	<b>4365</b>	<b>4097</b>	<b>3564</b>	<b>3274</b>	<b>3222</b>	<b>3242</b>	<b>3282</b>	<b>3286</b>	<b>3157</b>
Compared with previous year (%)		-6.14	-13.01	-8.14	-1.59	0.62	1.23	0.12	-3.93
Compared with 1990 (%)		-6.14	-18.35	-24.99	-26.19	-25.73	-24.81	-24.72	-27.7
<b>Industry ('000)</b>	<b>1646</b>	<b>1498</b>	<b>1230</b>	<b>1067</b>	<b>979</b>	<b>943</b>	<b>922</b>	<b>904</b>	<b>871</b>
Compared with previous year (%)		-8.99	-17.89	-13.25	-8.25	-3.68	-2.23	-1.95	-3.65
Compared with 1990 (%)		-8.99	-25.27	-35.18	-40.52	-42.71	-43.99	-45.08	-47.08
<b>Agriculture and forestry ('000)<sup>1</sup></b>	<b>814</b>	<b>758</b>	<b>696</b>	<b>694</b>	<b>713</b>	<b>752</b>	<b>783</b>	<b>800</b>	<b>800</b>
Compared with previous year (%)		-6.88	-8.18	-0.29	2.74	5.47	4.12	2.17	0.00
Compared with 1990 (%)		-6.88	-14.50	-14.74	-12.41	-7.62	-3.81	-1.72	-1.72
<b>Building industry ('000)</b>	<b>361</b>	<b>337</b>	<b>253</b>	<b>204</b>	<b>209</b>	<b>192</b>	<b>188</b>	<b>166</b>	<b>139</b>
Compared with previous year (%)		-6.65	-24.93	-19.37	2.45	-8.13	-2.08	-11.70	-16.27
Compared with 1990 (%)		-6.65	-29.92	-43.49	-42.11	-46.81	-47.92	-54.02	-61.50
<b>Transport ('000)</b>	<b>247</b>	<b>242</b>	<b>223</b>	<b>193</b>	<b>197</b>	<b>188</b>	<b>206</b>	<b>206</b>	<b>183</b>
Compared with previous year (%)		-2.02	-7.85	-13.45	2.07	-4.57	9.57	0.00	-11.17
Compared with 1990 (%)		-2.02	-9.72	-21.86	-20.24	-23.89	-16.60	-16.60	-25.91
<b>Education and science ('000)</b>	<b>374</b>	<b>364</b>	<b>336</b>	<b>316</b>	<b>299</b>	<b>285</b>	<b>281</b>	<b>280</b>	<b>266</b>
Compared with previous year (%)		-2.67	-7.69	-5.95	-5.38	-4.68	-1.40	-0.36	-5.00
Compared with 1990 (%)		-2.67	-10.16	-15.51	-20.05	-23.80	-24.87	-25.13	-28.88
<b>Health tourism ('000)</b>	<b>214</b>	<b>221</b>	<b>207</b>	<b>204</b>	<b>200</b>	<b>195</b>	<b>196</b>	<b>201</b>	
Compared with previous year (%)		3.27	-6.33	-1.45	-1.96	-2.50	0.51	2.55	
Compared with 1990 (%)		3.27	-3.27	-4.67	-6.54	-8.88	-8.41	-6.07	
<b>Administration ('000)</b>	<b>61</b>	<b>54</b>	<b>50</b>	<b>51</b>	<b>67</b>	<b>75</b>	<b>76</b>	<b>73</b>	<b>79</b>
Compared with previous year (%)		-11.48	-7.41	2.00	31.37	11.94	1.33	-3.95	8.22
Compared with 1990 (%)		-11.48	-18.03	-16.39	9.84	22.95	24.59	19.67	29.51

<sup>1</sup> from 1996 inclusive of fisheries

Source: NSI (1994, p.56), (1997b, p.78), (1998b, p.76f.), authors' own calculations.

In socialist Bulgaria, agriculture was almost completely collectively run and operated in a singularly labour intensive fashion. The privatisation process was at its most advanced in the agricultural sector, with 85% currently working within the private sector. It would be readily

conceivable that since privatisation in general brings with it an increase in efficiency, the superfluous workers would be discharged, but this didn't take place in the long term. Following a temporary slump in employment between 1990 and 1991, the situation stabilised somewhat, and by 1997 the vast majority of the lost jobs had been reinstated. Bearing in mind the surplus of employment in collective farms, such a development can only mean one thing: that surplus employment continues to occur within the private sector. The private farms, functioning as subsistence level businesses, took over the role of preventing unemployment in rural areas. They served to relieve the employment market by absorbing 25% of the working population.

A greater proportional increase in employment occurred only in the area of administration. It is debatable, however, whether this is indeed the best means of getting out of the employment crisis. Caution is required in relation to the fact that a negative correlation between the loss of jobs and progress in privatisation is readily apparent at the macro-economic level. In agriculture (as can be seen above), but also in the areas of commerce, public health and tourism, that is, in areas with well advanced privatisation, the levels of job loss are being contained. In areas which continue to be dominated by the State, for example, industry and construction, as well as the transport sector, loss of jobs continues to be high. However one can't draw any direct conclusions about possible job hoarding and ownership structures in the respective branches, since the high rate of job loss in the State-operated areas arose in the first place as a result of privatisation.

### 2.3. The evolution of unemployment

The number of unemployed people rose in accordance with the dramatic loss of jobs (see Table 2). In 1993 the rate of unemployment reached the highest level yet, 16.4%. The gradual recovery of the economy in 1994-95 did have a positive impact on the job market, but the 3.6 % decline in unemployment rates in 1994 remains difficult to explain. There is something to be said for the argument that this stems from a correction in statistics, rather than any real development having been made. During 1994, employment rose by only 20,000, while unemployment figures fell by 138,000.

The comparison between employment and unemployment figures gives pause for reflection anyway, given that between 1989 and 1997, twice as many jobs were abolished as unemployed people registered. The authors are not aware of any empirical investigations into this phenomenon. There are, however, three possible explanations. Firstly, it is not unlikely



that not all of those dismissed didn't register as unemployed, in particular in instances where there was no entitlement to the dole. More realistic, however, is the second explanation, that the assessment of the number of jobs is insufficient. In particular small businesses, that is, family businesses with less than five employees, are poorly represented in the statistics. What is doubtless also of significance is the shadow economy which is booming all over Middle and Eastern Europe, guaranteeing millions a certain level of income.

Young people have been particularly hard hit by unemployment (see Table 4). Even though it wouldn't have been that difficult to reduce youth unemployment, which since June 1994 has stood at an all-time high of 42%, in the period up to June 1997, every third Bulgarian aged between 15 and 24 and capable of gainful employment was without a regular job. There are no comparable figures for the period up to 1994, partly because a different age distribution was used (age groups of under 29, 30-49 and 49 and over, respectively), and also because of missing data about people in the workforce in the respective age groups. It can be assumed, however, that youth unemployment was also extremely high prior to 1994.

*Table 4: Unemployment rates according to age group*

	June 94	June 95	June 1996	June 1997
total	0.20	0.16	0.13	0.14
15-24	0.42	0.38	0.33	0.33
25-34	0.21	0.16	0.14	0.15
35-44	0.15	0.12	0.10	0.11
45-54	0.14	0.11	0.10	0.10
55-64	0.16	0.11	0.09	0.08
over 65	0.13	0.07	0.06	0.05

Source: NSI (1995, p.95), (1996, p.85), (1997b, p.86), (1998b, p.83f.), authors' own calculations.

The danger of becoming unemployed is particularly high for those with low levels of education. The situation for academics is more or less under control – unemployment figures for 1994-1997 were under 8%, and since 1996 have been approximately 5% (see Table 5), while unemployment figures for people with only primary school education, or less, lie at around 20%. And it is important to note that almost 30% of Bulgarians only have a primary school education, while barely 19% can show some kind of tertiary academic qualification. The difference in education levels could also explain in part the very high levels of disparity amongst the ethnic groups. The Roma minority is particularly significantly affected by unemployment, being also the ethnic group with the lowest level of education and the highest rates of illiteracy.

*Table 5: Unemployment rates according to level of education attained*

Level of education	June 94	June 95	June 1996	June 1997
Total	0.20	0.16	0.13	0.14
University degree	0.08	0.06	0.05	0.05
Technical college	0.07	0.04	0.06	0.06
High school	0.16	0.12	0.11	0.09
Vocational training	0.20	0.16	0.13	0.15
Primary school or less	0.30	0.25	0.22	0.20

Source: NSI (1995, p.94), (1996, p.84), (1997b, p.85), (1998b, p.83), authors' own calculations.

Table 6 illustrates the development of unemployment levels in relation to gender and location. There are no discernible differences between the levels of unemployment for men and women, though one possible explanation may be that specifically in this regard the figures reveal a distorted picture. The unemployment rate only incorporates those who have registered as unemployed, and not those who may indeed have lost their job, but for one reason or another don't register as unemployed. It is to be readily assumed that the number of unregistered unemployed is higher amongst women than amongst men. On the other hand, there are great differences between levels of unemployment in the cities, as compared with rural areas. However the much higher levels of unemployment in rural areas ought not to be attributed to a reduction in agricultural jobs (see above-mentioned explanations).

*Table 6: Unemployment rates according to gender and location*

	September 1993	June 1994	June 1995	June 1996	June 1997
Men	20.9	20.0	15.5	13.5	13.9
Women	22.0	19.9	15.8	13.4	13.6
Urban	19.5	18.0	14.1	12.6	13.2
Rural	26.3	25.2	19.8	16.0	15.6

Source: NSI (1994, p.62), (1995, p.93f.), (1996, p.83f.), (1997b, p.84), (1998b, p.83f.), authors' own calculations.

It is instructive to look at Table 7, which presents the duration of unemployment. If one were to take the period of one year as the measure of 'long term' unemployment, then almost two-thirds of Bulgaria's unemployed fall within this category. And long-term unemployment is increasing relentlessly, with roughly a third remaining unemployed for over three years. For people in this situation, the likelihood of getting a job on the open market is practically nil, since neither their knowledge and qualifications, nor their motivation, meet the needs of the economy.

*Table 7: Duration of unemployment*

Duration of unemployment	June 94		June 95		June 96		June 97	
	Number of unemployed ('000)	As a % of whole	Number of unemployed ('000)	As a % of whole	Number of unemployed ('000)	As a % of whole	Number of unemployed ('000)	As a % of whole
Total	734.1	100	564.4	100	488.7	100	491.4	100
< 1 Month	27.1	3.7	17.8	3.2	15.4	3.2	14.0	2.8
1-5 Months	143.2	19.5	97.9	17.3	91.7	18.8	97.7	19.9
6-11 Months	114.2	15.6	67.6	12.0	60.3	12.3	73.9	15.4
12-17 Months	116.2	15.8	83.0	14.7	64.5	13.2	70.8	14.4
18-23 Months	35.0	4.8	24	4.3	18.5	3.8	20.2	4.1
24-35 Months	131.6	17.9	93.4	16.5	67.8	13.9	58.8	12.0
3 or more Years	156.8	21.4	177.9	31.5	165.5	33.9	151.5	30.8

Source: NSI (1995, p.95), (1996, p.86), (1997b, p.86), (1998b, p.84), authors' own calculations.

If the authors were to summarise the results of the analyses, then a couple of tentative diagnostic statements could be made, assertions which on one hand concern the causes of unemployment, while on the other, point to potential solutions to the crisis. It is beyond dispute that the collapse of socialist methods of production are responsible for the high loss of jobs in the Bulgarian economy. Above all, those dismissed were people with low levels of education and those involved in the production of products requiring little technology. By opening up the Bulgarian market to cheap consumer goods which were nonetheless of better quality, the home-produced product was rendered in large part redundant. Segregation of the market, however, is not much of a solution, especially not when there is no corresponding means of domestic production. It is not enough for Bulgaria to bring in foreign investors, but they also have to be able to put enough well-educated and motivated labour at work disposal. There is no real hope of combating unemployment in the absence of greater promotion of education.

Another thing is that the country could be used to greater advantage as a tourist destination. With its long stretches of coast on the Black Sea and the relatively low labour costs, Bulgaria has comparative advantages as a holiday destination, though these can't be utilised at present due to the lack of corresponding infrastructure. Income from unemployment benefits, though of course important, should therefore play only a secondary role in the labour market as a whole. Active measures towards greater employment and education should instead be intensified.

### 3. Unemployment insurance

The shock of adjustment proved to be particularly great in the Bulgarian job market; Bulgaria is a relatively small and poor country and it runs according to rigid mono-structures and systems of production. From the very outset, the unemployment insurance which was hastily introduced in 1990 was incapable of solving the problems. The government and Parliament's continual amendments and additions to the regulations are an indication that in this domain of social policy a sense of confusion prevailed. That a national council was convened to combat unemployment, a council constituted by government and representatives of both employers and employees, serves as testament to the fact that the seriousness of the problem was at least recognised. However concrete results can hardly be expected as long as the institutions seeking to combat unemployment – the Employment and Social Welfare Ministry, the Unemployment Insurance (Qualification and Unemployed Fund) and the local employment agencies – are forced to suffer continuous shortage of funds and technical know how.

The most important task for Bulgarian unemployment insurance lies in the guarantee of unemployment benefits (the dole) and additional monetary assistance for the unemployed, as well as their families. Furthermore, diverse employment and training services are provided. The financing for such measures comes predominantly from contributions which, until the end of 1997, were made exclusively by employers. Table 8 illustrates the development of the rates of contribution, with employees' gross wage forming the basis of assessment.

*Table 8: Contributions to unemployment insurance (% of gross wage)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Employer contribution	7.0	7.0	7.0	5.0	5.0	5.0	5.0	5.0	3.6
Employee contribution	0	0	0	0	0	0	0	0	0.9

Source: Data from the Social Security Insurance Fund.

In general, unemployment insurance is compulsory, but not all employees fall within its ambit, for example, the public service – in particular employees of public administration, state-run schools, the public health system and cultural institutions – are exempt from making contribution. Also, as of 1998, it is only the employers who have to make contributions towards social insurance of the disabled employees of the company.

Determination of entitlement to the dole, the rate of such payment and the duration of such entitlement are regulated by various laws and regulations which have been amended a number of times over the last eight years. Until 1991, the rate of payment was ultimately decided in reference to the length of unemployment. In the first month of unemployment, one received

the full amount of their salary, in the next months the support would be reduced by equal amounts, so that in the last month of payment, the sixth month of unemployment, the recipient would receive only half of one's salary. At the end of the six-month period one was only entitled to a maximum of three months' assistance, at the rate of the legal minimum wage. The pre-requisite to any entitlement to the dole was that the applicant had previously partaken for at least six months in some activity liable to insurance. For school leavers there were special arrangements, though these will not be further examined in the course of this paper.

In June 1991, the rights of the unemployed were altered. The most important change was the linking of the duration of entitlement to the age of the recipient and the length of employment. Long-term employed old people (for women from 51 years of age, for men from 56) have since the amendments received unemployment benefits for 12 months, with the aspiration that this would make the transition to the old-age pension an easier one. For those who had been in gainful employment for more than six months, but less than five years, support ceased after six months. This approach in relation to the length of entitlement to the dole remained practically unchanged until 1998.

In June 1991, the government also changed the rate of unemployment benefits. Under the pressure of the adjusted financial situation, the rate of payment was reduced to the legal minimum wage plus a bonus which amounted to 20% of the difference between the legal minimum wage and the average wage of the applicant in the last six months prior to unemployment. In 1992, this was changed to 60% of the average gross wage of the applicant in the last six months of employment, but the sum was at the same time not to constitute less than 90%, nor more than 140%, of the legal minimum wage.

The exploding long-term unemployment (see Table 7), often tied together with poverty, drove the political decision-makers into action. As a result, in 1994, the decision was made to grant additional assistance to the long-term unemployed. Effective immediately, they were now entitled to unemployment benefits of up to 60% of the legal minimum wage. In addition, those with children in need of assistance received a supplement. Higher rates were also paid to those unemployed who had participated in retraining and further qualification programs.

In 1997, the legal position changed all over again, as a result of which the only people entitled to the dole were those individuals who had made contributions to unemployment insurance for six out of the last twelve months of their employment. From 1998 on, this was changed to a requirement that contributions were to have been made for at least nine of the last fifteen months of employment. The rate of benefit was also made dependent on the amount of

insured income; it currently represents 60% of the average gross wage in the last nine months before unemployment. However this is not to exceed 150% of the legal minimum wage, nor is it to fall below 80% thereof. The duration of entitlement was also changed, now a period of between four and twelve months (see Table 9). The reduction in length of entitlement and the regressive rate of payment are meant to contribute to the unemployed developing greater personal initiative in looking for new employment opportunities. The main goal, however, is to reduce the huge burden on the State. Unemployment benefits are not subject to any taxation, which leads back to the fact that the rate of benefits is tied to the legal minimum wage. Nevertheless, since the rate of the dole is also determined with reference to gross wage, the total exemption from income taxes doesn't present a particularly convincing solution.

*Table 9: Maximum length of dole entitlement*

Length of employment (years)	<3	3-5	5-10	10-15	15-20	10-25	>25
Length of entitlement (months)	4	6	8	9	10	11	12

Source: DV, Nr. 120/1997, Article 71.

At the same time as changes to the rate and duration of the dole entitlement, the pressure on the unemployed increased, both that they actively seek new employment, and that they would be at the disposal of employment agencies at all times. This readiness is to be evinced by regular (monthly) reporting at the relevant employment office, with failure to do so resulting in financial support being withdrawn. The same applies in cases where an unemployed person refuses work offered to him or her by the employment agency, without any good reason. In cases of leaving employment voluntarily, the dole is usually reduced for four months to 80% of the legal minimum wage, while in instances of termination of employment for disciplinary reasons, the entitlement to the dole ceases altogether.

Especially since 1997, the government has sought, often with the assistance of the unemployment departments, to encourage an active employment policy. In order to raise the mobility of the unemployed, in 1997, one-off supplements were made in instances where the new place of employment was far from home. Also, as an alternative to the dole, from the beginning of 1998, dismissed members of the public service were able to receive a one-off payment of 250 USD if they had previously been employed in the public sector for a period of at least twelve months. If they then set up business as an independent employer, and in the process employed other unemployed people, the assistance they received would be increased by a further 250 USD. This 'program for establishing a livelihood' is financed by loans from the World Bank and additional subsidies from the Bulgarian State.

The dole consumes most of the unemployment insurance's resources, but up until 1997, subsidies were also becoming more significant in the realm of social welfare, especially in the form of additional assistance for the long-term unemployed and their families (see Table 10). From 1998 on, however, the unemployment insurance's assistance for children and the additional subsidies for the long-term unemployed were drastically reduced.

*Table 10: Payment of unemployment insurance, 1991-1998, (in Million Lewa)*

	1991	1992	1993	1994	1995	1996	1997	1998
Total payment of unemployment insurance	721.8	1230.4	2396.9	3016.6	4009.9	6177.5	56350.6	67418.2
Unemployment benefits (the dole)	684.7	1025.3	2053.0	2660.3	2854.5	4172.1	47591.6	62109.0
Social services from unemployment insurance	32.2	136.0	209.8	266.6	321.8	473.6	1683.6	827.8
Retraining assistance	10.1	15.1	40.0	49.0	87.6	152.3	719.3	284.1
Other assistance (inc children)	39.6	54.0	94.1	40.7	322.5	724.8	190.5	677.9
Assistance for the long-term unemployed					423.5	654.7	6165.7	3519.4

Source: NSI (1995b, p.93), (1997b, p.84), (1998a, p.46), (1998b, p.82), authors' own calculations.

Roughly a third of the unemployment insurance's resources are spent on active employment policies, of which over half is expended on subsidies for employers (employment programs), and over a third on advice and information services (see Table 11). Since 1993, however, there has been a considerable change to the areas of emphasis with regard to employment policy. In 1993, almost two-thirds of resources were spent on advising, and only 30% on job subsidisation.

One of the active employment measures is the provision of subsidies, drawn from unemployment insurance resources. For businesses, these generate lasting jobs and employ unemployed people. The businesses receive subsidies between three and six times the minimum wage, as well as having their insurance contributions paid for. This depends upon the duration of the work contracts, the size of the enterprise and the kind of person employed (long-term unemployed, disabled people, etc).

The majority of these employment programs<sup>7</sup>, however, can't obliterate the fact that thus far the active employment policies have not demonstrated any real success. Only programs which capitalised on seasonal labour forces have achieved higher rates of absorbing the unemployed (e.g. 68,000 in 1997, in addition to 10,000 for winter work). However seasonal workers also

<sup>7</sup> E.g. for the promotion of the youth labour market from 20.11.95, Further Education and Qualification – especially in this domain the goal was combating illiteracy. From 1996 on there were programs for the promotion and intergration of the disabled, as well as programs such as ‚Beautiful Sofia‘.

are usually able to find suitable employment without any state intervention, so that the issue of a successfully introduced second labour market is hardly relevant. By contrast, in the context of an actively-promoted youth labour market, it is significant to note that in 1997, only 1150 positions were generated, while all other employment programs were, in essence, insignificant.

*Table 11: Structure of expenditure for active employment policies, 1991-1995*

	1991	1992	1993	1994	1995
Total expenditure in 100,000 Lewa	55.84	165.76	496.91	740.21	1488.71
Qualification and retraining in 100,000 Lewa	7.10	23.64	39.98	49.00	87.577
% of total expenditure	12.72	14.26	8.05	6.62	5.88
Promotion of self-sufficiency in 100,000 Lewa	0.13	2.32	9.31	12.13	15.68
% of total expenditure	0.2	1.4	1.87	1.64	1.05
Promotion of disabled employment in 100,000 Lewa	0	0.10	0.06	0.157	0.23
% of total expenditure	0	0	0.01	0.02	0.02
Employment programs in 100,000 Lewa	0	17.80	107.38	179.54	536.69
% of total expenditure	0	10.74	21.61	24.25	36.05
Measures against youth unemployment in 100,000 Lewa	0.10	2.29	7.66	8.29	3.84
% of total expenditure	0.19	1.38	1.54	1.12	0.26
Taking over interest on loans in 100,000 Lewa	0.01	1.77	3.65	9.85	7.56
% of total expenditure	0.03	1.07	0.74	1.33	0.51
Provision of advice in 100,000 Lewa	48.48	117.84	328.82	481.21	837.13
% of total expenditure	86.83	71.09	66.17	65.01	56.23

Source: Beleva et. al. (1996, p.96), authors' own calculations.

## 4. Social pension insurance

### 4.1. The social security insurance fund

In Bulgaria, social pension insurance, sickness benefits and support for families continue to be allocated in accordance with socialist principles by the social security insurance fund. Until 1995, the so-called social insurance was totally linked to the State budget. Admittedly, separate contributions were made towards social insurance, but this income formed part of the general State budget, and in this respect, the contributions were in fact a form of taxes. Output was funded directly from the general budget. Since the State authorised the financing of such undertakings, any excess left over from the contributions could then be applied to other State expenses, so that the overall balancing out of contribution and output was in no way guaranteed.



On 15.11.95, with the passing of the regulations on the establishment of a social security insurance fund, the direct ties between the Bulgarian social security system and the State budget were officially abolished. From looking from outside it appears that the fund operates as an independent quasi-fiscal organisation, though the rate of contribution is determined by Parliament, and the budget of the social security insurance fund is discussed and decided on together with the State budget. The fund is predominantly financed by insurance contributions, the rate of which is determined according to gross wage. The rate of contribution for employees is dependent on their classification in one of three professional categories. This kind of classification, which also finds its counterpart in the pension entitlement, is something of a leftover from socialist days. 'Category I' receives preferential treatment with respect to the right to a pension. The first category includes miners, pilots and airline stewards (presumably in order to increase their loyalty), ballet dancers, fire fighters and police officers. The second category includes, amongst others, railway workers, construction workers, and mining administrators. The majority of jobs fall within the third category. It is difficult to ward off the notion that this system of organisation, which, incidentally, has until now been in the hands of the government, will, in accordance with the principles of political arbitrariness, be maintained.

The rate of contribution to the fund can be seen in Table 12, with contributions usually being paid by the employer. The lower rate of payment by employers at approximately 2% of gross wage was first introduced at the beginning of 1998. The insurance contributions of the self-employed and those who are only voluntarily insured vary, dependent on the scope of the insurance; the rate is generally somewhere between 22% and 32% of the insured income. The State pays the insurance contributions of the unemployed.

*Table 12: Rate of contribution to the social security insurance fund (as a % of gross wage)*

Professional category I		Professional category II		Professional category III	
Employer contribution	Employee contribution	Employer contribution	Employee contribution	Employer contribution	Employee contribution
52	2	47	2	37	2

Source: Data from the Social Security Insurance Fund.

The rate of contribution to the social security insurance fund is at a high level and, together with the contributions to unemployment insurance, is a heavy burden for employers to bear. The situation will be made even worse once the planned system of health insurance is introduced. It must be noted, though, that the basis of assessment for the contribution rate (regular gross wage) is actually very low and will be further reduced. Because of the high rate of contribution, many employees in the private sector are receiving amounts akin to the legal

minimum wage – at least officially. Then, they receive higher actual salaries under the table, income which is therefore exempt from contribution: It is also well-known that payment behaviour amongst employers is poor. In total, the amount owed to the fund by the employee sector in 1995 was in excess of 20,000 Million Lewa, or about 23.5% of the fund's total expenses.

The structure of the fund's expenses is presented in Table 13. The greatest outlay is in relation to pensions, payment of which in 1997 was almost 83.2%. In 1990 only 72.6% of resources had been spent on paying the pension. The reason for this increase was above all the added burden of family support. Expenditure on children and education costs in 1990 was still another 20.2% of total expenses, while in 1997 this figure had been reduced to 10.7%. Preferential treatment for older generations is, however, typical of almost all transformation countries.<sup>8</sup>

*Table 13: Expenditure of the Social Security Insurance Fund (until 1995, as a part of the State budget)*

	1990	1991	1992	1993	1994	1995	1996	1997
Old-age and disability pension in Bill. Lewa	3.9	12.4	19.9	32.6	50.9	70.0	121.2	1064.0
% of Fund's total expenditure	72.6	70.9	75.7	79.6	81.2	81.1	83.8	83.2
Payment for temporary inability to work (esp sickness benefits) in Bill. Lewa	0.4	1.0	1.6	2.5	3.8	5.5	8.3	74.6
% of Fund's total expenditure	7.2	6.0	6.7	6.1	6.0	6.4	5.7	5.8
Birth assistance. in Bill. Lewa			0.02	0.02	0.15	0.20	0.30	2.36
% of Fund's total expenditure			0.1	0.1	0.02	0.02	0.01	0.02
Child assistance in Bill. Lewa	0.7	0.3	3.3	3.9	5.3	7.2	10.3	98.9*
% of Fund's total expenditure	13.6	17.2	12.5	9.5	8.4	8.4	7.1	7.7
Education costs in Bill. Lewa	0.4	1.0	1.3	1.9	2.7	3.5	4.8	38.6
% of Fund's total expenditure	6.6	5.9	5.0	4.7	4.4	4.1	3.3	3.0
Total expenditure in Bill. Lewa	5.4	17.5	26.3	40.9	62.9	86.5	144.9	1278.5

\* Incl. monthly pension allowances and allowances for disabled children

Source: NSI (1995, p.103), (1997b, p.92f.), (1998b, p.90f.), National Insurance Institute (1998, p.134), authors' own calculations.

## 4.2. Trends in the number of pensioners

Some of the transformation countries endeavoured, in particular in the first phase of changes to the system, to introduce an early retirement age in order to combat the exploding unemployment rate. The most extreme example is presented in the instance of Poland's pensioners, whose numbers increased by 1.7 Million between 1990 and 1992, an increase of more than 25%<sup>9</sup>.

<sup>8</sup> For Poland compare with Sowada (1999 p. 13 f.); for other countries, Lodahl/Schrooten (1998).

<sup>9</sup> cf. Sowada (1999, p. 13).

Likewise in Bulgaria, the number of pensioners increased rapidly, with a growth rate of 10% in the first transformation years; however the rate of increase was much less than that experienced in Poland (see Table 14). The number of disability pensioners remained constant; old-age pensioners, by contrast, showed a significant increase, in particular in 1991, when the numbers rose by 5.5%. After 1993, there were no further significant changes in pensioner numbers; in fact there was some decrease in numbers, above all amongst disability pensioners.

The exception, however, was in relation to the pensions which were funded by the State budget and not by the Social Security Insurance Fund, which admittedly only account for 6% of total pensions, but their numbers have risen by 141% in the last ten years. In 1992 alone, an increase of 82.3% was recorded, an indication that public law has in particular made employees and civil servants dependent on the pension. Administration and the army and security forces were similarly affected.

It must be noted that Bulgaria also used early retirement as a means of relieving the job market (especially prior to 1993), however not to the same extent as in, for example, Poland.

*Table 14: Pensioner numbers 1989-1998 (respectively until 31.12.)*

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total pensioners ('000).	2,209	2,273.4	2,374.4	2,443.3	2,439.8	2,423.7	2,409.2	2381.1	2,391.8	2,387.3
Previous year = 100		1.0291	1.0444	1.0229	0.99866	0.9934	0.9940	0.9988	1.0045	0.9982
1989 = 100		1.0291	1.0749	1.1061	1.1045	1.0972	1.0906	1.0779	1.0828	1.0807
Old-age pensioners ('000)	1,862.6	1,929.5	2,035.9	2,057.1	2,055.3	2,031.5	2,012.0	1,980.5	1,991.0	1,989.6
Previous year = 100		1.0359	1.0551	1.0104	0.9991	0.9884	0.9904	0.9844	1.0053	0.9993
1989 = 100		1.0359	1.0930	1.1044	1.1034	1.0906	1.0802	1.0633	1.0689	1.0682
Disability pensioners ('000)	265.9	263.1	257.1	251.9	248.9	253.6	253.5	247.7	240.0	231.6
Previous year = 100		0.9896	0.9772	0.9797	0.9884	1.0189	0.9993	0.9773	0.9690	0.9647
1989 = 100		0.9896	0.9670	0.9474	0.9364	0.9541	0.9534	0.9318	0.9029	0.8711
Agricultural pensioners ('000)				19.3	19.2	18.9	18.7	18.9	18.5	18.3
Previous year = 100		1.0163	1.0421	1.0492	0.9934	0.9862	0.9877	1.0094	0.9821	0.9854
1989 = 100		1.0163	1.0591	1.1113	1.1045	1.0893	1.0759	1.0859	1.0665	1.0509
Pensioners dependent on the State budget ('000)	61.1	63.1	63.1	115.1	116.4	119.7	125.1	134.0	142.2	147.6
Previous year = 100		1.0329	0.9994	1.82332	1.0114	1.0286	1.0455	1.0712	1.0606	1.0382
1989 = 100		1.0329	1.0323	1.8821	1.9035	1.9578	2.0469	2.1926	2.3254	2.4114
Of whom, social security pensioners ('000)	47.7	50.5	2.6	54.4	53.8	55.9	60.1	62.4	63.5	63.7
Previous year = 100		1.0598	1.0415	1.0340	0.9892	1.0383	1.0750	1.0385	1.0185	1.0036
1989 = 100		1.0598	1.1037	1.1413	1.1290	1.1723	1.2602	1.3088	1.3330	1.3378

Source: Data from the National Insurance Institute, authors' own calculations.

### 4.3. The right to the pension and pensioner trends

#### 4.3.1. Old-age pensioners

The legal pension age, and the necessary period of being insured, in order to be entitled to draw a pension, are determined according to the three categories already mentioned. In

Category I it is enough to have been insured for 15 years; men can then draw a pension from the age of 52 and women from the age of 47. In Category II, the period of insured time required is twenty years, and men are eligible for the pension from 57, women from the age of 52, while in Category III the requirement is 25 years of insurance, and eligibility begins at 60 and 55, respectively. Discussion is currently under-way, however, to introduce a new age of 65 for men, and 60 for women. This is to apply in concurrence with other regulations, but the general goal is to raise the age of the old-age pension in general, as well as abolishing the random discrimination according to professional categories.

In determining eligibility for the pension, in addition to the professional categories and respective time factors, the factor of raising children is also relevant – currently the pension age is reduced by three years for every child raised.

When the relevant insurance times and age requirements are strictly applied, the old-age pension constitutes 55% of the basis of assessment. This is determined according to the average monthly wage of the last three consecutive years of the last fifteen ‘insurance years’. As to the rate of pension, the relevant years selected are those three years with the highest gross wage. For every additional insured year of employment, the rate of pension ultimately received increases by 2% (for example, with one additional year of employment, the basis of assessment is increased to 57%).

In particular in times of devaluation of the currency, the adjustment of pensions is a significant problem. In this case it is not just the newly-arising claims on the indexing which have to be taken into account, but also the re-calculation of pensions, which suffer dramatically as a result of the inflation conditions stemming from the devaluation. The basis of assessment of the pensions, for example the wages of the 70ies and 80ies, due to prices rises, are in effect reduced to nil. There was an urgent need, not only for equity purposes, but also due to extreme poverty, to calculate a new determination for the pension (the so-called ‘valorisation’). This was carried out on 1.1.1996. The basis of assessment for the old-age pension, or, rather, the average wage earned in the year eligibility to the pension was attained, is multiplied by a coefficient. This coefficient is determined by law according to year of eligibility. The rate can be seen in Table 15.

*Table 15: Coefficient of the pension valorisation*

Year of eligibility for the pension	Coefficient	Year of eligibility for the pension	Coefficient
Prior to 1970	9.69	1981	6.26
1971	9.49	1982	6.09
1972	9.17	1983	6.02
1973	8.62	1984	5.79
1974	8.45	1985	5.62
1975	8.20	1986	5.34
1976	8.10	1987	5.12
1977	7.92	1988	4.76
1978	7.63	1989	4.37
1979	7.28	1990	3.33
1980	6.59	1991	2.02

Source: DV, No. 22/1996, Article 34.

As a result of the valorisation of old-age pensions, the greatest losses to buying power could be partially overcome, even while on-going indexation in such times of high inflation will remain necessary. In Bulgaria this is a result of, on the one hand, irregular compensation payments (in 1997 they were made on three occasions), and on the other hand, equally irregular increases to the pension. Both the timing and the rate of these changes are determined by Parliament.

#### 4.3.2. Disability pensions

Like many former socialist countries, Bulgaria has an extensive disability pension system. The Bulgarian system determines eligibility to the disability pension in relation to work accidents, as well as work-related illnesses and other conditions which render employees incapable of work. The rate and calculation of the disability pension is dependent on the cause of the disability, as well as the extent of the inability to work. There are three general levels of calculation. The first level is those who are completely incapable of work, the second level is those who are limited in their ability to work, and the third is those unable to work in their specific area of expertise.

The disability pension relating to workplace accidents or sickness is assessed on the basis of the insured wage in the last twelve months before the event causing the disability. The rate is 70%, 55% or 35%, respectively, of the average gross wage in the relevant time period, with the first group receiving the highest rate. However, minimum levels have also been set, which, according to the disability level, constitute 150%, 140% or 115% of the social security pension. The rate of this social security minimum pension is determined by the government, and in 1997 was set at roughly 34 USD. This is the amount which is paid to, amongst others,

the unemployed, specifically those who constitute the third professional category, but who have not yet reached the age of eligibility for the old-age pension and have no further entitlement to the dole. The pre-condition, however, is that the legal entitlement to the old-age pension is not more than three years away.

In the case of disability stemming from an illness which is not the result of performing some job-related task, eligibility to the pension only arises once the minimum period of insurance payment has been reached. For those who have become disabled between the ages of twenty and twenty-five, the minimum period of insurance payment is three years, while people disabled after the age of twenty-five must have made their insurance payments for a minimum of five years. In this category of pensions, the gross wage in the last twelve months prior to disability is also the basis for calculation of the relevant amount received, with the amount being 55%, 40% or 25%, respectively, of the average gross wage. For people who have been insured for longer periods of time, there is an additional supplement, at the rate of 5% for an insured period of 10 to 15 years, 10% for a period of 15 to 20 years, and 15% for a period of over 20 years. Also in this context minimum rates are envisaged, namely 140%, 130% or 105% of the social security pension, according, once again, to the individual group.

#### 4.3.3. Pension rates

Unfortunately at present the authors do not have any figures about the trends of the individual categories of pensioners. Consequently, the following analysis is a very general one, taking into account the old-age and disability pensions. However these figures also provide insight to the pensioners' situation.

Table 16 illustrates the trends of the average maximum and minimum pensions, as well of the average rates of pay in the industrial sector. The figures presented are from the end of each year.

*Table 16: Trends in pension amounts for 1991-1998 (at end of each year)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Average pension in Lewa	179	501	741	1,247	1,909	2,765	6,015	51,111	58,000
Minimum pension in Lewa	134	403	450	880	1,296	1,780	3,148	28,900	33,000
Average gross wage in Lewa	545	1,856	2,785	3,642	6,348	8,612	19,833	168,700	185,985
Minimum pension as a % of the average pension	74.9	80.4	60.7	70.6	67.9	64.6	52.3	56.5	56.9
Minimum pension as a % of the average gross wage	24.6	21.7	16.2	24.2	20.4	20.7	15.9	17.1	17.7
Average pension as a % of the average gross wage	32.8	27.0	26.6	34.2	30.1	32.1	30.3	30.3	31.2

Source: Data from the Social Welfare Ministry, authors' own calculations.

What is of significance is the low level of support rendered (measured here as the average pension in relation to the average gross wage), which is at around 30%. However extreme caution must be exercised in interpreting this figure, since pensions are not subject to taxation, so that the gross income and net income are the same, while wage income is subject to income tax. The level of support denoted here is in relation to net support (equal to gross support) and gross wage (then subject to taxation). The net level of support received, for which the necessary corresponding information about net income levels is missing, would no doubt prove to be much higher. It must also be noted that the average pensions listed here are the old-age pension and the much lower disability pension, combined, so that no analysis is possible about the level of support old people in fact receive.

## **5. Poverty and social security assistance**

### **5.1. Trends in household income and wages**

Without doubt, the increasing poverty in Bulgaria in recent years is the most dramatic development. When analysing the pension insurance, what was apparent was the great loss of purchasing power amongst pensioners. However other groups have also undergone similar decreases in purchasing power. As Table 17 indicates, average real income fell by almost two-thirds between 1990 and 1997, falling to a quarter of the previous average wage by 1998, even though the nominal average wage rose by a factor of twenty in the same time frame (see Table 18).

Table 17: Buying power trends with respect to average household income

Year	Reference year					
	1990	1991	1992	1993	1994	1995
1990	100.0					
1991	61.2	100.0				
1992	65.6	107.6	100.0			
1993	62.7	102.5	95.2	100.0		
1994	55.5	90.5	84.6	88.8	100.0	
1995	50.7	82.9	77.2	81.1	91.3	100.0
1996	34.4	57.0	53.2	55.5	62.5	68.5

Source: NSI (1996a, p.12).

Table 18: Trends in nominal and real wages, 1991-1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Average wage in Lewa (end of year)	545	1,856	2,785	3,642	6,248	8,612	19,833	168,720	185,985
Real growth rate (in %) Reference year = previous year		-40.64	-16.4	-20.2	-22.7	+3.7	-43.9	+27.9	+9.18
Real growth rate (in %) Reference year = 1990		-40.64	-50.83	-60.41	-69.39	-68.25	-82.2	-77.24	-75.15
Average pension in Lewa (end of year)	179	501	741	1247	1909	2765	6015	51111	58000
Real growth rate (in %) Reference year = previous year		-51.21	-17.65	+2.76	-31.03	+9.00	-47.05	+25.23	+12.40
Real growth rate (in %) Reference year = 1990		-51.21	-59.83	-58.72	-71.53	-38.96	-83.56	-79.42	-76.87

Source: Data from the Social Welfare Ministry.

In order to stop the uncontrolled flow of money into the economy, in 1991 Bulgaria decided to implement a relatively strict system of regulating wage policies of state enterprises. Hence, only profitable enterprises which are able to meet their obligations on time are granted the freedom to determine rates of pay. Promising enterprises which are however unable to meet their deadlines are only allowed to determine limited rates of pay, with pay rise coefficients being determined by the government. The situation with regard to unprofitable sectors is even stricter; they are often only allowed to approve pay rises where the total amount of wages paid out isn't increased, that is, in situations where there is simultaneous economisation. Violations are punished by high taxes on the additional wages. Whether such a policy really can halt inflation remains controversial, though it must be noted that the experience of Poland, which introduced a similarly progressive taxing of pay rises (the so-called Popiwiek) proved advantageous<sup>10</sup>.

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<sup>10</sup> cf. Sowada (1994).



## 5.2. The minimum wage

Special attention should be paid to the trends in legal minimum wages, whose importance stem from the fact that they represent not only a regulative level of the lowest level of remuneration, but, as the basis for social transfers, also perform an important social-political function. However the minimum wage can hardly fulfil this objective, since it lies below the social minimum, as well as below the physical subsistence level minimum (see Table 19). The rate of declining purchasing power in the last few years was extremely rapid, in spite of a high nominal increase.

*Table 19: Trends in minimum wages, the social minimum and subsistence level minimum (1990-1998)*

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Minimum wage in Lewa <sup>1</sup>	191	620	850	1,414	2,143	2,760	5,500	45,500	53,500
Social minimum in Lewa	226	874	1,477	2,278	4,367	5,883	10,928	97,167 <sup>3</sup>	
Subsistence level minimum in Lewa			999	1,599	2,947	4,276	7,650	77,734 <sup>3</sup>	
Guaranteed minimum income in Lewa <sup>1</sup>	70	403	500	885	1,225	1,600	3,250	27,000	32,400
Minimum wage compared with social minimum (in %) <sup>2</sup>	84.5	70.9	57.5	62.1	49.1	46.9	50.3	46.8	
Minimum wage compared with subsistence level minimum (in %) <sup>2</sup>			85.1	88.4	72.7	64.5	71.9	58.5	
Real growth rate of the minimum wage compared with December of the previous year = 100%		-43.4	-23.6	1.49	-31.7	-3.09	-51.5	21.92	16.46

<sup>1</sup> For the minimum wage and guaranteed minimum income, the figures presented are always those of December of the relevant year.

<sup>2</sup> The figures are for the social and subsistence level minimum for an employed adult.

<sup>3</sup> For 1997; figures given are the average for the year in relation to the social and subsistence level minimum.

Source: Data from the Social Welfare Ministry, authors' own calculations.

## 5.3. Poverty

The massive loss of purchasing power of all income groups ultimately led to an explosion of poverty. But the risk of falling below the poverty threshold affects societal sectors in vastly different ways, with unemployed households being particularly badly affected. If one were to take the minimum income of 29,500 Lewa (the official poverty level in Bulgaria) as the benchmark of poverty, then in October of 1997, 17.4% of unemployed households fell below this level. 10.1% of households with poor qualifications were below the poverty threshold; poverty is very common amongst families with three or more children, with 35.6% of such

households falling below the threshold. The introduction of the social security pension (the minimum pension) prevents pension households from also falling below the threshold.<sup>11</sup>

However one obtains a completely different picture of poverty if, rather than taking the minimum income as the benchmark, for example, the level of 95,000 Lewa were taken, as in the modified Orshansky Method.<sup>12</sup> Then 65.5% of Bulgarian households would fall below the poverty line, with poverty incorporating in this definition 83.6% of unemployed households, 97.8% of households with three or more children, and 68.7% of pensioner households<sup>13</sup>. In light of a so vastly extended poverty, the targets of the social assistance of the lowest socioeconomic levels of society gain special significance. Unfortunately, though, the social welfare system is not in a position to bring the immense and increasing poverty under control.

Table 20 shows the number of households whose incomes in 1992 to 1997 failed to reach the subsistence level and social minimum, respectively. If one were to take these two indicators as an indicator of poverty, it would become clear that in 1997 approximately 62.8% or 76.2% of Bulgarian households respectively live in poverty. The trends for the years 1992 to 1997 indicate dramatic increases.

*Table 20: Poverty, Subsistence level and social minimum levels in Bulgaria, 1992-1997*

Year	Subsistence level minimum in Lewa	% of houses under the subsistence level minimum	Social minimum in Lewa	% of houses under the social minimum
1992	13,882	49.76	17,352	67.39
1993	21,075	50.34	26,344	67.83
1994	36,560	54.34	45,700	70.32
1995	52,627	53.67	65,784	68.61
1996	93,303	63.93	116,629	77.25
1997	932,804	62.83	1,166,005	76.17

Source: Bogdanow (1998, p.39).

Only individuals and families with an income below the minimum income are entitled to social welfare benefits. The level of this income threshold is determined according to the State budget. The foundation level is the so-called minimal basic income, which is determined by the government every month, following discussions with the unions. The basic income is then

<sup>11</sup> For greater detail see ILO (1998, p. 27 ff.).

<sup>12</sup> "The method is based on the assumption that the relation between households' minimal needs and their basic needs for food are constant in a certain household sample. In this case the determination of the basic needs is sufficient. For this purpose, the value of consumer basket, in current prices, is taken into account. The poverty threshold is calculated on the basis of the estimated expenditure for food multiplied by a coefficient, which is calculated as a geometric average of the ratio between the total expenditure and expenditure for food per household." ILO (1998, p. 77).

<sup>13</sup> For greater detail see ILO (1998, p. 27 ff.).

multiplied by budget-dependent coefficients, at the rate presented in Table 21, thereby raising the household's income to the level of the minimum income. Social security is predominantly financed by local government.

*Table 21: Assessment of social security in Bulgaria (December 1997)*

	Coefficient	Differentiated minimum income
Individuals	1.0	27000
Individuals over 70	1.2	32400
Orphans	1.2	32400
Single parent with one child	1.2	32400
Children under 18	0.9	24300
Pensioner household with two pensioners	1.8	48600

Source: DV, No. 100/1997, Article 4.

Social security is paid according to a needs-based assessment. Recipients of assistance are not allowed to own property. Also, living conditions (that is, the size of the apartment) are strictly regulated, so that an individual recipient is only allowed to live in a one-bedroom apartment. All adult recipients must either be in gainful employment or be registered as unemployed.

In the winter months, the poorest households receive additional aid in the form of limited cost-free access to electricity and district heating, or coal rations. However the only households with a claim to such assistance are those whose income falls below the level of the so-called 'shelter income', the rate of which can be seen for various household types in Table 22. This income is assessed by reference to the minimal basic income, as well as set norms for energy usage.

*Table 22: 'Shelter income', 1997-1998*

	December 1997	since 1.01.1998
Individual	48,826	51,326
Individual pensioner over 70	54,226	57,226
Two-person household	70,426	74,926
Single parent with one child	94,726	101,476
Three-person household with one child	110,926	No data available
Single parent with two children	135,226	No data available
Four-person household with two children	151,426	No data available
Single parent with three children	175,726	183,200
Five-person household with three children	191,926	200,000

Source: Data from the Social Welfare Ministry.

Also the grants from the so-called 'Euro-aid' are tied to non-receipt of the shelter income, though the categories aren't coordinated. Hence there can sometimes be an overlap in the support rendered, but since the levels of assistance are so low, these overlaps are barely noticeable.

Social security in Bulgaria encompasses various forms of financial assistance and payment in kind. The number of recipients of the various forms of aid varied dramatically in 1991 (see Table 23), but certain trends can be observed. For example, the assistance for families rose from 87,000 in 1991 to over 250,000 five years later. By contrast, though, the number of recipients of free medical assistance or regular aid decreased. What is striking is the number of Bulgarians dependent on State assistance for energy and district heating.

*Table 23: Number of social security beneficiaries ('000)*

	1991	1992	1993	1994	1995	1996
I. Assistance to people 'at risk'						
1. Uninsured parents	87	136	160	183	285	251
2. Facilities for the disabled	298	271	235	225	178	135
3. Free medicine	384	681	355	335	237	191
II. Assistance to low-income individuals and families						
1. Monthly allowances	89	189	253	201	69	65
Coverage*	12%	76%	58%	54%	47%	35%
2. Lump sums	115	438	258	163	166	109
3. Energy allowances					137	476
Coverage**					29%	72%

\* %age of the population below the differentiated minimum.

\*\* %age of the population below the protected income line.

Source: ILO (1998, p.58).

## 6. Summary

It is by no means an exaggeration to say that the situation in Bulgaria is truly catastrophic. As a reflection of the economic situation, which has been steadily deteriorating since the collapse of the socialist planned economy, the social problems can be viewed as the price of transformation. However this interpretation is something of an impermissible simplification, even a mistake, which fails to accord with reality. Other former socialist countries which have also set themselves on the path to transformation of their economies and society also continue to struggle against various problems, above all, high unemployment and poverty. But the situation in Bulgaria is worse than any other country except Romania. In both countries, the transformation process has been impeded rather than promoted. Consequently the problems they experience are in part a domestically generated issue and should be viewed as the social price to be paid both for abandoning old systems, as well as failing to realise the necessary reforms.

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