

Ivan Tchalakov

THE EMANCIPATION OF THE ECONOMY: 1988-1996 ¹

(The capitals of nomenklatura, renters, entrepreneurs and their subsequent transformation)

Chapter 1. Methodology and theoretical background of the study

1.1. Methodology

In this section we outline the methodology from which the proposed analysis of Bulgaria's economic transformation proceeds, a methodology based on three theoretical traditions: *the economics of technological change*, particularly its evolutionist paradigm, *the sector approach to economic development*, and *the theory of actor networks*. We have pointed out the requirements of this methodology with regard to data sources and the specific time structure that the analysis acquires.

The methodology we use in analyzing the economic transformation in Bulgaria is essentially taken over from the *economics of technological change* (specifically its *evolutionist paradigm* – cf. Freeman & Dosi, 1988). According to this approach, the core of the analysis of an economy lies in revealing its potential for development, i.e. the mechanisms by which it is capable of locally (internally) generating or successfully incorporating externally created, new economic combinations (innovations) in selecting and diffusing the most effective ones among them.² This approach, the foundations of which were laid by Joseph Schumpeter as far back as 1912, was later developed by the evolutionists in the 1970s and 1980s. It was first used in the study of socialist economies and the post-socialist transition by Peter Murrell in 1990 and the next years (Murrell 1990 and 2003). When applied to the analysis of the Bulgarian transition, the most important consequence of this methodology is the *reformulation of the problem of property*: it is regarded not simply in terms of assets that provide a certain amount of rent, but as a *condition for appropriating the future result of economic behavior* (entrepreneur profit). Ownership rights are important as a principle of economic behavior that guarantees the future result of economic activity of the autonomous subjects will not be appropriated by someone else.

This new emphasis in the definition of property has two important implications. The first refers to the fundamental role of a fair access to credit in the course of the economic transition, because, in addition to *simple property* (*traditionally defined as the ownership of some assets*), *access to credit is an essential condition for entrepreneurial activity*. Credit

¹ © Selected chapters (1,2, and 4) from: Tchalakov, I. et al. (2008), *The Networks of Transition: What Happened Indeed in Bulgaria after 1989*, East-West Publishers, Sofia (in Bulgarian)

² Or respectively surmounting the external and internal obstacles to this development. On this question, cf. Tchalakov 1997, 2003.

combined with property, meaning a guarantee for appropriating the future results of activity, is what makes private entrepreneurship possible, *regardless of the owned assets*³. The second consequence of this understanding of property is the even greater importance attached to *the institutional framework of property relationships and the presence of effective legal mechanisms for imposing them*⁴. These mechanisms should not only guarantee the "ownership" of assets and the appropriation of the results of economic activity, but also provide the "rear" (or the "infrastructure") of entrepreneurial efforts during the whole business process, thus guaranteeing contracts will be respected and violators will be penalized⁵.

In the analysis we are proposing, this methodology is combined (we hope, not eclectically) with elements of the *sector approach to economic development*, elaborated in the 1990s by British and American authors such as Gary Gereff and Michael Shafer⁶. This approach is important, because *it takes into account the impact of the global division of labour on the branch (sector) profile of a national economy*, and the way in which the *technological and organizational characteristics of the leading branches determine the type of relationship that will prevail between economic factors* – including the national and international capital, the political elite, the work force and its trade union organizations, etc.⁷ Bela Greskovits, for instance, asserts that at the end of the 1990s the export specialization and the leading sectors established by that time, had brought about specific kinds of capitalism in Eastern Europe, which can be classified broadly into four large groups: *national large-scale capitalism; national small-scale; foreign-led large scale; and foreign-led small scale*. These four "ideal types" capture the important characteristics of the post-socialist transition and enable us to understand the local variations and paths followed by each country: for instance, why "...Central Eastern Europe specializes in industries based on the wide use of foreign capital, new technologies and highly qualified work force, such as automobile production, electrical and electronic devices, non-perishable consumer commodities and computers... while Southeastern Europe has turned into a textile, shoe-making and furniture producing belt of western Europe."⁸ (Greskovits, 2003: 2)

Closely connected with the evolutionist paradigm is the specific version of the *network approach*, developed in the framework of *sociology of innovations* (M. Callon, B. Latour, J. Law). Network analysis is important, because the capacity to generate and assimilate innovations demands a mobilization of resources that are not only limited to the economic

³ On access to credit as one of the fundamental problems of the transformation of the bank system after 1989, cf. Tchalakov and Kirov, 1999.

⁴ About the underestimation of this problem in post-socialist countries during most of the 1990s, cf. Kornai 2000.

⁵ From this viewpoint, the various illegal ways of appropriating a portion (often the greater part) of the entrepreneurial profits, such as forced insurance, imposing monopoly prices, denying access to markets, etc., have a far greater impact on the development and motivation of business than does the formal observance of property rights.

⁶ Cf. Gereff and Wyman, 1990 and Michael Shafer, 1994.

⁷ The developed approaches are part of a wider debate among Hungarian economists and sociologists about the "end of the transition" and are connected with the observation that "... economic reforms in the second half of the 1990s have proved to be a less effective means for economic restructuring than those undertaken at the beginning of the decade. Instead of leading to radical new forms of economic activity, these reforms actually reflect the influence of the structures that emerged before the mid 1990s. It seems that a powerful logic is at work in the post-socialist economy and this is a consequence of the *type of integration of this economy into the global economy*... It is connected with the characteristics of the leading sectors through which a given national economy proves connected with the global one." (Greskovits, 2003: 1-2). The emphasis is on the role and capacity of the state to direct economic development, but the authors also point out that "...the capacity of the state to exert influence over economic development depends on the characteristics of the leading sectors through which the country is connected with the international economy. The specific characteristics of the concrete sector determine a different, specific kind of international market structure

⁸ Indeed, starting from the middle of the 1990s, the textile branch appeared to be the leading one in Bulgaria. According to data of the Bulgarian Chamber of Industry, the percentage of textile articles (including confection) in the total export of the country has grown from under 10% in 1996 to 24% in 2002. In 2004, this industry decreased its rate of growth

sphere, and that sociologists like Pierre Bourdieu designate as various kinds of capital – political, symbolic, cognitive, cultural, etc. Network analysis lies at the very heart of the sector approach as well, for the latter implies a study precisely of the specific mutual link between technological, organizational, political, trade-union, educational, etc., relationships. In our study we will refer to the *theory of actor networks*, elaborated by Bruno Latour and Michel Callon, which is essentially different from the traditional conceptions about social networks, including those of popular authors like Pierre Bourdieu and David Stark. Without going into methodological details (cf. Tchalakov 2002, 2003), we will point out that *through this approach concrete processes of interaction are analyzed without a preliminary assumption of concrete positions, competencies or other structural components of networks and the agents in them*. Such “structures” and “competencies” are examined rather as secondary ascriptions that agents make *after* interaction, ascriptions that can in fact be viewed as a resource created by agents with a view to realizing their strategies in the subsequent interactions. In this sense *interactions are defined as that which will be manifest and stabilized as “positions” and “agents with specific competencies”, and also, that which will be used as a “resource” by those agents*.

This conception of networks immediately brings us to the problem of the data sources and our role as researchers of economic change. Apart from our current observation and documenting of the on-going economic processes, we have no source of data other than *descriptions* or, more precisely, *texts of widely varying formats*, which the actors in the transition have produced or are producing in some form or other. These are written statements, memories, or narratives of the participants, institutional documents, documents of political parties and political leaders, publications by journalists, scientific texts (sociological, economic, etc.) or standardized documents, such as economic statistics and other statistics, documents of a legal nature, etc. All these texts, including the scientific ones, have been used as material on the basis of which we have attempted to identify the economic processes, the actors participating in them, their stakes, and the resources they employ.

If so, then in investigating the main economic events, the key economic “battles” of the 1990s, our steps should be: *firstly*, to identify – retrospectively – the economically significant *resources (assets)* in Bulgarian society on the eve of the transition, whereby we will determine the initial constellation of agents of the economic transition, and then, *secondly*, to trace the dynamics of the relationships between economic actors and the most important stakes/challenges, around which these relationships are formed and which lead to their transformation, including to the emergence of new agents and resources. If carried out correctly, the analysis would permit tracing the key transitions, the range of possible variants of development at each stage, and the constellation of circumstances that has led to the realization of only one of these variants.

1.2. Theoretical background of the study. The historical sociology of socialism as a ‘middle range theory’ that presents a concrete application of the described methodology

At the end of the previous section we reached the conclusion that the immediate task of analysis is, *first*, to identify the economically significant *resources (assets)* in Bulgarian society on the eve of the transition (perceived to be significant at the privileged point in time when the analysis is being carried out, i.e. 15 years after the beginning of changes), and then, *second*, to trace the dynamics of the relationships between economic actors and the most important stakes/challenges, around which these relationships are formed, and which lead to their transformation, including the emergence of new agents and resources. Before

proceeding to a description of the agents and their resources, we must specify the situation in the political and economic sphere at the very end of the 1980s.

The political situation in the late phase of socialism, a key to understanding subsequent changes, will be analyzed in detail by Andrei Bundzhulov in the following section, but we can assert at this point that certain new achievements of historical sociology of socialism are particularly important for understanding the post-socialist transition, achievements that have substantially changed the established notions about this society. Specifically, we are referring to:

(1) the entrepreneur functions of the nomenklatura, viewed as a motor of economic development under socialism;

(2) the fact that the nomenklatura itself was not homogeneous, i.e. there were different structural and functional wings or circles within it; in particular, there was a fundamental contradiction between the “Party” and the “economic” nomenklatura;

(3) the enhanced role of scientific and technological research on the economic development of late socialism and the structural differences of their assimilation by the economies of socialism and late capitalism.

Below we will briefly present the picture of late socialism as drawn by the historical sociology of socialism. The aim of this text is to provide the reader with some key resources for understanding the next parts of the analysis. For the sake of brevity, many of the details and arguments will only be sketched. In this sense the text is, among other things, an invitation to critically-minded readers to acquaint themselves with the publications in which the theses are demonstrated in greater detail.⁹

Using Pierre Bourdieu’s extended concept of “capital”, Andrei Bundzhulov argues that, for socialism, “political capital” was the fundamental kind of capital, and this determined the nomenklatura’s being the basic power group.¹⁰ But the nomenklatura was divided into various circles, whose respective weights were determined by their respective access to the political capital and different kinds of other resources (capitals): economic, ideological, organizational, staff, informational, etc. (Bundzhulov 2006). Most privileged of all is the “Party nomenklatura”, which comprises *organizational departments* managing the information relevant to cadres (checks in cadre files, dossiers, personal profiles), *ideological departments* carrying out surveillance regarding the doctrinal purity of cadres, jointly with their right-hand institution, the *secret services*.¹¹ Tensions and contradictions existed between the different circles of the nomenklatura, for, although socialism deprives the social fields of their autonomy, the regime does not destroy them entirely, and separate economic, cultural, educational, scientific, and other, fields exist. Hence, not the party apparatus as a whole, but only part of it is in a position to carry out the transformations of the economy: this is the “*economic and, foremost, the industrial apparatus, which has at its disposal the most independent cadres, the best-educated, and pretending to high prestige*”. (Bundzhulov 2006: 406, quoted from the book of A. Rybakov, *The Children of Arbat*). Precisely in order to control this apparatus, Stalin created

⁹ Cf. the articles of A., Bundzhulov, D. Deyanov and I. Tchalakov in the journal *Sociological Problems*, Special Issue 2006, pp.343-412.

¹⁰ “Since the Party committees carry out the selection of cadres in an extremely wide range (from the rector, dean, head of departments, to the director of a scientific institute or editor in chief of the local newspaper, to the director of a school or factory), then this is their basic political “capital”, from which the Party cadres receive “dividends” in other fields, where selection of staff and ideological measures are carried out”. (Boundjoulov, *ibid.*)

¹¹ This thesis finds support in the interviews we have conducted and in the published memoirs of agents of the secret services and of the high-ranking nomenklatura. Cf. for instance, “Sixth Department” by Dimiter Ivanov, the memoirs of Ognyan Doynov, the book of memoirs about Georgi Naydenov (“The Man Who Was Ahead of His Time”) etc. More on this question in the following chapter.

the Party nomenklatura as a double of the economic nomenklatura at all levels.¹² Thus the Party and economic nomenklatura find themselves not only separated, but also *opposed to one another*, in mutual struggle and with smoldering potential contradictions between them.

The dynamics of socialism can be represented as a *swaying movement between two extremes* – in one direction lies the action of depriving objects of their power and blocking the mediating structures of modernity (commodity and monetary relations, private property, the market, the bourgeois state and parliament, bourgeois law and democracy, the bourgeois media, the bourgeois forms of life, etc.) a goal that cannot be fully accomplished (Bundzhulov, 2006: 399). *The immediate structural correlate of these two poles is the division between the Party and the economic nomenklatura and the periodically recurring tensions between them.* This movement engenders the so-called “second networks”, which must compensate for the “power void” and the inability of the economy to be self-active. “In [socialist] society, along with the official *formal* hierarchies, other *factual* hierarchies spring up, because where objects are exchanged for status, it is natural that within the framework of this exchange some areas will be more marginal and some more central, hence *social hierarchies will emerge that will compete with the state hierarchies* [italics are all mine – I. Tch.]” (Raychev 2003: 4).

Particularly interesting is the connection between the “second networks” and the two systems of division of commodities and favors under socialism. The first system encompasses all individuals through universal education, a health care system for all citizens, a resort home system for all, a social catering system based on canteens, etc.; it functions at a relatively low level of quality. But for itself, the “apparatus” has created a different distribution system: special stores with better quality goods, special hospitals and resort homes with better quality services, better housing in special neighborhoods, privileges in receiving a higher education, in traveling abroad, etc. This second system is unofficial – “the privileges of the apparatus are secret, they are concealed from the eyes of the public!” A more careful scrutiny would lead us to think that there is something in common between the “second networks” and the “concealed privileges” of the nomenklatura, both have a compensatory function with respect to the official distribution system, and both are “concealed”, although in different ways¹³. The “hidden privileges” of the nomenklatura are akin to the second networks in that they too are the result of the private interests of their bearers and spring from the contradiction within the officially preached ideological principles. Creating privileges under the conditions of constantly arising deficits, *the nomenklatura operates as a kind of second network* – it subordinates the official distribution systems to a different logic¹⁴

However, the historical sociology of socialism has not adequately explained the phenomenon of “*development*” (especially economic development) under socialism, or of the mechanisms of the system’s later stagnation and breakdown¹⁵. The explanation of this failure

¹² The same is true for science, culture, etc.

¹³ The fundamental difference between them is that the first, though concealed, is part of the “official” hierarchy, part of the functioning administrative system, and is centrally controlled, while the second category of network is an “alien element in the system”, it slips away from administrative coordination and subordinates the latter to its purposes.

¹⁴ As we will see further on, this is precisely what determines the specific “synergism” of party nomenklatura and second network representatives at the very start (the first year and a half or so) of the post-socialist transition: the two played together against the economic (technocratic) nomenklatura, the foreign investors, and the authentic entrepreneurs appearing on the scene.

¹⁵ It appears out that socialism would be almost doomed from the start to “immobility”, if it were not for the “artificial joints” that second networks represent. Industrialization, a large scale process that went on for decades and changed societies radically, seems to have been achieved through the sacrifice of agriculture. The ordinary laborers, “families” deprived of the right of initiative, turn out to be focused only on “distribution” (under the counter, secretly carrying away goods from the warehouses, etc.) and, today, must wait once again for the “top”, i.e. the reformers in the state nomenklatura, to restore the power of money and commodities; hence, the artificial opposition between the “distributive” and the “productive” functions of the second networks.

is that historical sociology interprets socialism largely in terms of the same Marxian schemes that socialism itself was based on, i.e. the “amateur” nature of modern intermediary structures, to which planning is an alternative; the determining role of property; money as a universal equivalent; profit as an appropriation of the “surplus value” of live labour, etc. This interpretation overlooks some important aspects of development, which become increasingly important during the time of late capitalism, and for the description of which Schumpeter’s economic model is an adequate instrument (Schumpeter 1934). This model shows how the productive forces set free by the second industrial revolution (the one based on purposeful scientific and engineering research), create the possibility for a substantial increase in the prosperity of the masses, so that the accelerated implementation of innovations *by every potential entrepreneur*, becomes the basic motor of development. Viewed in Schumpeterian terms, the “network model” of the historical sociology of socialism described above acquires quite a different meaning (Cf. Tchalakov, 2000; 2002).

According to Schumpeter, it is important to distinguish between the two regimes of functioning of the economy: the *stationary condition* (circular flow) and *development*. Under capitalism the latter is a result of the activity of a specific, small group of economic leaders, the *entrepreneurs*, who in taking great risks and making great efforts, destroy traditional forms of production and commerce, and implement innovations (“the new combinations”). According to this model, *development is not fatefully tied in with ownership of the means of production, but rather with access to resources in the broad sense* (moreover, this access might be only *temporary*, appearing in the form of various kinds of credit).¹⁶ The entrepreneurs often come to complete failure, but when they *do* succeed, they revolutionize the production - sometimes even whole branches of production, and generate the waves of what Schumpeter calls “constructive destruction”. This fundamental assumption is valid as well for the administrative economy of socialism, but there it is substantially modified.

Schumpeter defines the administrative economy as one in which the economic resources are distributed through power or command. The communist leaders carry out this distribution directly. If they direct these resources in other than a routine way, not according to the established forms, but for the purpose of innovation, then *they are also performing the function of entrepreneurs!* Moreover, when they nationalize the banks, they are not restricted by the credit market and are not obliged to share entrepreneurial profit with the bankers. Nor can their profit be dissolved by the competitors through copying of innovations, simply because there are no competitors! All this defines the *course of economic development under socialism as entirely different*: by concentrating resources, the communist leaders are able to renew whole branches on a plan basis; they can also maintain both old and new forms of production for a while, if motivated by other considerations (for instance, in order to provide greater employment, even if contrary to the pursuit of profit). At least in theory, the communist economies are capable of implementing innovations very quickly and on the scale of the entire economy; under certain conditions, development here can be far faster than in the capitalist economy. The empirical and theoretical research on the practice of the Eastern European countries confirms this. As Kornai point out, in the first decades of their existence, all countries with an administrative socialist economy, which where at a lower level than the developed capitalist countries, achieved impressive rates of investment and growth: for instance, in the 1960s Bulgaria had one of the highest rates of economic growth in the world, and most of the socialist countries stood among the first 20 positions in the world (Kornai, 1996: 166). From the start of the 1970s the rates began to decline and became negative by the end of the 1980s. Following Kornai, we can tentatively call these the “first” and “second” stages of

¹⁶ “Without credit, the structure of modern industry would be impossible, for *credit makes the individual relatively independent of inherited property*, and the talent of modern economic life rides on the success of its debts” (my italics – I.Tch.) (Schumpeter, 1934: 70).

development of the socialist economy. The historical sociology of socialism indicates that it is precisely in the second phase that the upward trend of the “second networks” begins.

How can this be explained? The undifferentiated concept of nomenklatura that Schumpeter uses, shows its limitations at this point - in fact it largely coincides with what the historical sociology of socialism defines as the “economic nomenklatura”. The latter brings about contradictions within the nomenklatura as a whole, and this fact raises the need for radical changes in Schumpeter’s model¹⁷.

It appears that the economic nomenklatura, similarly to the entrepreneurs in capitalist economy, is also restricted in its activity, in this case not by the bankers, but by the Party nomenklatura. *In a grotesque way, the functions of the Party nomenklatura resemble those of the bankers in capitalism.* On the one hand they keep the economic apparatus under control, lest it begin to appropriate all the entrepreneurial profit for itself, on the other hand they penalize that apparatus in case of eventual failure of the innovations, which is the socialist equivalent of bankruptcy for the private entrepreneur. In our interviews we have on multiple occasions registered cases when, upon failure (failure to meet the deadlines for implementing production capacities and products, failure to achieve the planned parameters, bad quality, etc.), the economic leaders had to answer to the respective Party organs and often to *the state security*; after being charged with negligence and “wasteful practices”, or, even more dangerous, with “appropriation” and “economic sabotage”, hundreds of managers were sentenced to prison, especially during the first decade of socialism. But this process did not end with the well-known “April Plenum” of the Party.¹⁸

Empirical observations warrant the assumption that in the first phase of accelerated development of the socialist economy, this constellation proved gainful for both sides: despite the repressions, the economic apparatus was in need of the organizational and ideological apparatus, which provided the necessary resources for creating an infrastructure and for the subsequent large-scale start of innovations in whole branches (the so-called socialist industrialization), which cannot be supplied by the economy itself: the “temporary” super-exploitation of the peasants, the non-economic mobilization for observing work discipline, teaching literacy on a mass scale, secondary and higher education on a mass scale, the development of research and information infrastructures (libraries etc.), the formation of a secret intelligence service for science and technology, etc. With the advance of industrialization however, the situation changed: the administrative system based on the Plan, on Conscientiousness, on outright or concealed Terror, began to lose its effectiveness.

Here certain processes intervened, for the description of which neither the schemas of historical sociology of socialism, nor the Schumpeter model are adequate. The entire history of economic development in the 20th century, especially after World War II, shows that the “new combinations” (innovations) are impossible to achieve without mass-scale development of fundamental and applied research. In this sense both conceptions ignore some important aspects of the connection between the activity of discovery and invention, and entrepreneurial activity. *It is not possible to analyze entrepreneurial activity and implementation of innovations*

¹⁷ If we adhere to the traditional Schumpeterian notion, the *Party divisions of the nomenklatura* (the organizational, ideological and special services) *are completely superfluous* – the economic nomenklatura could structure and reproduce itself autonomously, incorporating the more enterprising workers and promoting in its hierarchy those of its members who successfully implement innovations and develop the economy. Hence there would be no need for any “compensatory mechanism” and “second networks”. It would appear that the “Lenin model” of socialism is closer to Schumpeter than the subsequent Stalinist modification imposed in Eastern Europe after WWII.

¹⁸ Just two weeks after the April Plenum, Todor Zhivkov stated at a meeting with the leaders of State Security: “... Recently the enemy is attempting to create difficulties, comrades, as he has been doing all along, but now he is trying to hit upon some of our spots and this might represent a threat if we failed to take measures, *including rousing the State Security organs as is proper. With regard to everything: the economy, the industry, culture, with regard to everything, comrades!*”(my italics – I. Tch.) (Shorthand report of the meeting, 25 April, 1956).

without studying the connection between production of new scientific and technological knowledge and its integration in the economy, simply because a large part of the entrepreneurs had academic titles, and long work experience in universities, research institutes, and industrial laboratories. The administrative economies in Eastern Europe emerged in precisely these conditions and it is no coincidence that “mastering the latest achievements of science and technological progress” was the basic ideological slogan for several decades, but also the immediate practical task of these economies, while providing a mass scale of professional and higher education and developing the scientific potential was part of the economic policy. This is the phenomenon that the *theory of actor networks* captures and tries to explain (in the concrete variant, in terms of a theory of techno-economic networks, TEN). (Cf. Tchalakov, 2003a and 2003b).

In the perspective of this theory, the process of socialism itself, in its Leninist (“in a single country only at first”) and Stalinist (“in a single country for a long time”) forms, was possible *due to the specific condition of countries marginal to capitalism*. The essence of this project was fully captured in Lenin’s formulation “Soviet power plus electrification”. Nearly thirty years of experimentation were necessary (from 1874 to 1904), accomplished by a host of brilliant inventors and industrialists (Edison, Westinghouse, Nikola Tesla, Siemens, etc.), and large resources had to be expended, in order to stabilize a form of electrification that remains basically unchanged to this day, i.e. alternating current, not direct; *energy production located near to the source of raw materials* and *distant transport* through high tension current, not local production near the consumers; *consumption during the day* (by means of industrial electric motors with alternating current), *which balances the consumption in the evening* (for lighting and other needs), etc. It was only after these 30 years of experimentation, described by Thomas Hughes in his book tellingly entitled *Networks of Power*¹⁹, that someone like Lenin could pronounce the celebrated phrase that would start millions of people on a course they were confident in.

Thus the administrative economy in its phase of accelerated growth, is a privileged world in which one can be a pioneering entrepreneur while being sure not to repeat the mistakes of those who have already built the networks elsewhere. This is the foundation on which the socialist Plan proves practically valid, but behind all this stands not the “conscious subject” (the revolutionary vanguard) but a specific configuration: stabilized technical-economic networks. Thus in the course of “catching up” and becoming *comparable* with the developed capitalist states, the socialist economies appear prepared to pass on to the “*third phase*” of development, staking more and more on their own original projects and innovations.

But what does “original innovations” mean? It means that *we do not know beforehand where industrialization is headed for!* Could anyone possibly have proclaimed in the mid 1950s: “Socialism means Soviet power plus electronization of the entire economy”? It became possible, and someone did say it, but 15 years later. For at the end of the 1950s this assertion was not quite certain even in the developed capitalist countries²⁰. Which, in turn, made it possible for cybernetics to be declared a “bourgeois science” in the USSR, and deprived the few grass-root enthusiasts of the possibility of experimenting and opening the way for implementing the new technology in the economy.

Thus in explaining the changes in late socialism, the key question is what happens to the nomenklatura in situations where *it no longer has where to copy innovations from* and the

¹⁹ It could also be taken as meaning “Networks of Political Power”...

²⁰ But the managers of IBM, DEC, BULL and a few other private firms in the capitalist economy of the developed Western countries *believed* in the idea, perceiving the opportunity for actual profit. And, in taking the risk, they made it widely true ten years later... A concrete episode of this process is excellently described by Tracy Kidder in his book “The Soul of a Machine”. (Kidder 1981).

communist entrepreneurs find themselves in an insecure world of *emerging configurations*? The empirical analyses of the historical sociology of socialism actually supply an answer to this question: *the nomenklatura splits into two parts and the contradictions between its contingents come to the surface*. Then the official hierarchies block the development and a struggle between the separate kinds of nomenklatura begins; in addition, certain “unofficial hierarchies” intervene in this struggle.

Summing up our analysis so far, we can point out, together with Andrei Bundzhulov, that in the first phase of accelerated development of socialism, the nomenklatura as a whole has monopolized the opportunities for entrepreneurial activity, but this occurs in a situation where it is roughly clear where the economy should be headed for as concerns technology, namely, catching up with the developed capitalist West. In this phase there is little risk of making a mistake and growth rates are high. Gradually however, the two systems drew closer together and, *entering their second phase at the start of the 1970s, in terms of technology and organization of industrial and agricultural production, the socialist countries nearly reached the developed Western countries*. At this point crisis phenomena began to grow in the socialist economies, precisely because the dominant administrative system greatly hampered the opportunity for spontaneous local innovations, and the initiative for economic renewal could only be taken centrally.²¹ In this respect all subsequent reforms undertaken by the nomenklatura had but one economic purpose: empowering the local agents, i.e. expanding the circle of potential entrepreneurs... In Bulgaria conscious attempts to achieve this were made as early as the mid 1960s, when Todor Zhivkov punished the group of Benjamin Baron, Kofardjeiv and others, who claimed that “... private ownership must be allowed up to the middle level, because planned economy cannot foresee everything”.

The conclusion is that in a socialist economy, provided it is known in advance where technological development is headed for, there will be no special problems: the only thing that must be done is to create conditions for copying the already familiar innovations made elsewhere²². That is why as early as the end of the 1960s the scientific and technological secret intelligence became a purposefully developed tool of state policy in Bulgaria (i.e. it went far beyond its use in the West as a tool for competition between corporations). And, as we will see further on, the staff of precisely this division of intelligence, together with part of the secret

²¹ But even this assertion must be accepted somewhat tentatively. Karen Freeze, for instance, recounts the remarkable story of the creation of a unique spinning machine that employs a spindleless technique; this textile machine was created in the darkest days of communism in Czechoslovakia. According to the author “... the irony in the creation of this machine is that we are talking about a unique project embodying superb management practices, applied decades before they were articulated in Western business schools, talented people, as well as the advantages of the command economy. This is also a history of pragmatism overcoming ideology, where technology diffuses on both sides of the Iron Curtain at a time when it seemed shut tight.” The machine was called BD-200, the initials standing for the Czech term “bezvretenovane dopradani”, meaning spindleless spinning with 200 spinning headstocks. The world debut of the machine was in 1967, when it won a tough competition with the leading European and Japanese firms. This machine conquered much of the textile industry for yarn production; it tripled productivity, facilitated work, and improved the working conditions of thousands of textile workers throughout the world. In the next decade the export of these machines supplied three fourths of the revenues in hard currency of Czechoslovakia. (Karen Freeze “A Czech-British Connection when Europe was De-Linked: Global Contributions to the Textile Machine Revolution in Communist Czechoslovakia”, report presented at the Tensions of Europe Conference, Budapest, March 18-21 2004).

A similar, still unwritten story is that of the original design of the Bulgarian MOS integral schemes at the Institute of Microelectronics, a design by I. Kasabov that helped create the ELKA calculators, which were the third successful prototype at an exhibition in UK in 1966, along with a Japanese and an American design. Although the Bulgarian ELKA was remarkably successful on the CEI markets, management mistakes prevented this article from entering the Western markets for years to come. Such examples rather serve to illustrate the inability of socialist economies to implement original innovations on a mass scale and to impose them on a long-term basis on the markets.

²² For instance implementing reel and disc magnetic memory storage devices, the production of penicillin, of non-alcoholic beverages, of automobiles, etc. (cf. for instance, Tchalakov 1999; Doynov 2002).

service personnel responsible for controlling the economic nomenklatura, were going to play an important role in the economic transition after 1989.

The purpose of this brief theoretical overview of the socialist economy was to show that a different kind of analysis is revealed at the end of socialism: along with the well familiar categories of orthodox (political) economy, there are other, “indigent” actors, structured on the basis of the specific resources they possess (their “capitals” in Pierre Bourdieu’s term). These are the *economic and political nomenklatura*, the representatives of the “*second networks*”, *the cadres of the scientific-technological intelligence*, who had gained experience for work in a capitalist economy, their colleagues of the secret services that were in control of practically all the economically active persons in the country, etc. All of these were to become the basic actors of the socialist, but also of the early post-socialist economy, and without identifying them it would be difficult to understand the specific features of the Bulgarian transition.

Chapter 2 – Network resources and economic actors on the eve of the transition

As we pointed out, our study begins with secondary analysis of the available economic and statistical data on the transition and already completed economic and sociological studies on various aspects of the economic transition. On this basis the research team selected several key areas: *mass privatization*, *privatization in the framework of the worker-managers associations*, *privatization by foreign investors*, and by *authentic entrepreneurs* who have launched and developed a business of their own. In each of these fields typologically selected cases were studied (on the basis of preliminary study of a larger number of objects) and in-depth interviews with experts were conducted. The analysis of the interactions that had taken place in the course of the transition and the mutual examination of the results of these analyses creates a complex picture of authentic economic actors and their relevant resources (even when the actors themselves at first do not perceive themselves as such, and are not aware of the assets they possess in terms of economic resource). Anticipating the presentation of the results and preparing the reader for it, in this chapter we make a classification of the sources we have discovered and the economic actors connected with them. Where necessary, we adduce historical and logical arguments for the validity of the defined types. We conclude by drawing certain implications of this classification that are important for understanding the economic transformation in Bulgaria during the first half of the 1990s, implications that, in our opinion, change some of the prevailing schemas of interpretation.

2.1. *The basic economic resources on the eve of the transition*

Which are the key resources that the Bulgarian economy had at its disposal on the eve of the transition and over which there would be a vigorous struggle between the future economic actors (a struggle in which they would acquire their new identity)? We propose the following taxonomy of the most important of them, without claiming to be presenting an exhaustive list:

Material assets

1. Industrial assets owned by the state: natural resources and the respective extractive enterprises, manufacturing and construction enterprises, tourist complexes, transport, communication and information infrastructure, etc.
2. Agricultural assets – land, perennial plants, livestock, and the respective infrastructure.
3. Provision of goods in the state distribution network: warehouses, stored goods in retail stores, etc.
4. Real estate owned by the state, by parties, public organizations, socialist organizations, etc., especially in the large cities, the holiday zones, etc.
5. The personal property of citizens together with the just emerging collective and firm property of the private owners, who received legal legitimacy since the mid 1980s and especially after Decree No. 56 of January 1988.

Non-material assets

6. Financial assets in the Bulgarian National Bank, the State Savings Bank, and the commercial banks existing in the late 1980s.

7. Protected or non-protected legal intellectual property and brand names (certificates, patents, registered trademarks, useful models, etc., owned by the socialist state)²³.

8. Contacts with economic partners abroad and other foreign contacts which have the potential for becoming economic ones.

9. Specific qualified knowledge and skills possessed by economically active persons. Becoming especially important are the knowledge and skills in high technologies (information, biotechnology, etc.), the knowledge of western languages (especially English), legal and financial-accountancy knowledge and skills, etc.

Positions (as a specific kind of resource)

10. The specific positions of economically active individuals in the public division of labor, which provide privileged rights to disposing with regard to various resources

- In the management of economic organizations;
- In the financial sphere;
- In the system of distribution and services;
- In the foreign trade system.

11. Positions specific for socialism, which permit control over all other positions of economically active citizens, the so-called “control over the cadres”. *On the eve and in the first years of the transition, the groups possessing such control found themselves in a privileged situation compared with all other economic actors.*

Special assets

12. The possession of personal data about the behavior and the past of the economically active individuals also proved to be a crucial resource for exerting influence over their behavior in the years of transition. This information is concentrated in a comparatively restricted circle of people working in the secret service.

13. With the start of the transition, when it was no longer possible to “control the cadres” (ideological, organizational control, etc.), one of the most dynamically growing field of economic activity became the use of forceful methods of control, or what Krasen Stanchev euphemistically calls “industrial sale of protection” – extortion, threats, illegitimate violence, and protection from violence (Stanchev et al., 2004, p. 195-198). The specific technical skills for pursuing this business likewise places in a privileged position certain categories of the law enforcement organs and the secret services, as well as persons with specific skills in martial arts, etc.

14. The institutions that until then had provided ideological propaganda, and would soon begin to form the public opinion of the free citizens, acquired a new role in the *printed and electronic media, sociological agencies, etc.* They increasingly became a key resource for *impacting on potential clients, for public legitimization of the economic behaviour, and for*

²³ Some of these assets were at first not even perceived to be a resource: for instance, the names of some large state firms and amalgamated firms that have come to be associated with their sold and exported products. This is illustrated by the scandals that occurred when Serbian and Russian firms tried to register trademarks in assuming the names of leading Bulgarian perfume and cosmetics firms.

countering hostile attacks coming from competitors. The rapid mastering of skills in using this resource in the economic (and political) struggle would form the identity of part of the emerging economic actors and provide them with indisputable advantages over competitors. But at the same time this process would generate an entirely new and fast growing market for such services. This is also true for services supplying objective information about the preferences of consumers and voters, i. e. for political and economic marketing, where sociological and other agencies would soon be finding a place.

Newly appearing assets

15. These are various assets that did not exist at the start of the transition. They appear (and continue to appear) in the course of the transition. Here are some examples of this kind of assets:

- *The new information infrastructure Internet*, which sharply reduces the costs of seeking and receiving information, finding clients and suppliers, etc.;

- *Skills in using marketing information for organizing publicity and propaganda campaigns, etc.* Especially useful in this respect are the skills for ideological persuasion of the mass of people, skills that will be applied in new information media and PR agencies, etc.;

- *Positions of marginal importance* in the context of socialism, for instance trade unions²⁴, which, after the formal abolishment of political control over the economy, suddenly became key intermediaries between the economic and political spheres;

- *Positions in external economic structures* that play an important role in the global economy. Typical examples of this are the yuppies of the “Bulgarian Easter” movement, some of whom were integrated in the government in 2001.

In terms of their contents, these resources can be classified under the various categories listed above. It is important, however, to have in mind that, as a whole, *they are a new, specific kind of resource*, which defines a certain type of actor and provides the latter with certain economic advantages, thus changing the previous ratio of forces of the economic actors²⁵.

This taxonomy, as presented above, can be viewed as a rough analogy of the *contemporary methods of evaluating firm assets*. Included in those methods are heterogeneous things such as material assets, intellectual and industrial property (patents, registered trade-marks), human competencies, market positions, etc. On the other hand there is an obvious analogy with the theory of transaction expenditure, of agency, and other contemporary economic conceptions that analyze the division of property and control in contemporary managerial capitalism and the contradictions it involves. In nationalizing assets, including scientific and creative achievements of individuals, the Communist Party was compelled to delegate their management to a specific category of people and at the same time to build original mechanism for control²⁶.

²⁴ According to Ivo Hristov, the Prosecutor’s Office is acquiring such a role under the new Constitution of the Republic of Bulgaria. See Hristov 2008

²⁵ For instance the struggle to win the brand name “first private”, which had specific symbolic capital and defined many of the emblematic economic subjects in the first years after 1989. Or the appearance of the system of payment through credit cards on the Internet and its internationalization in the 1990s, which enabled part of Bulgaria’s authentic private enterprises working with foreign partners to circumvent the financial and tax system, ruled by the representatives of the political nomenclatura, and thus immunized them in a way against the hostile economic and political intervention. Of course the same is true for the “shady economy”.

²⁶ For more on this topic, cf. above, the end of chapter one, as well as the article by A. Bundzhulov and I. Tchalakov in the *Sociological Problems* Special Issue 2006.

Enumerated in this way, these resources appear to be a shapeless mass, but they exist only as part of the *characteristics (properties)* of the economic actors, being also a resource (intermediary) in their relationships²⁷. Moreover we must not view them as a separate substance: a given economic resource, as an intermediary, can be personified (for instance perceiving it as a specific service of a “translator”, “guard” or “broker”), but this resource can become emancipated and in its turn become a key economic agent, for instance translators or guards may start to compete with their employers²⁸. It is the specific combination of these resources that enables us to determine the configuration of (potential) economic actors of the transition.

2.2. Taxonomy of the basic economic actors

In presenting here the basic economic actors on the eve of the transition, we consciously neglect some specific categories (such as those connected with agriculture), which, in various degrees, come close to the described actors, or else have a dynamic of their own that lies outside the limits of this study²⁹. On the basis of their access to and control over specific resources, as described in the previous section, we propose a typology of which the basic categories are “*socialist workers*” (state employees, workers, and peasants), *the economic nomenklatura* (economic leaders of various levels), *the Party nomenklatura* (members of the organizational, cadre, and ideological departments of the Bulgarian Communist Party and the members of the secret services, acting as their right hand); *trade union activists* (including the dissidents of the trade union Podkrepa), and the former *Komsomol cadres*; members of the *juridical profession and the law enforcement organs*, persons having “*contacts with potential foreign economic partners*”.

1. The characteristic that defines the *enormous and heterogeneous mass of “socialist workers”* (state employees, workers, and peasants, each with their own specific competencies) as a single group, are their *highly restricted possibilities for control over the kinds of assets described previously*, with the exception of their personally possessed assets, directly accessible to them in the course of exercising their profession. These were people legally deprived of the right to economic initiative and of access to the necessary credits and

²⁷ In both cases, what distinguishes a characteristic as an asset, is its future usefulness; but this is inferred “a posteriori, i.e. after an *analysis of the traces* of the already occurred economic battles. In a stable economic environment, in which there are practically no innovations, it is possible to foresee such assets as stable characteristics of clearly defined actors, all of them “preceding” some economic event. We must have in mind their “emergent” characteristic, i.e. that they always arise in the course of a “trial of economic strength”, where actors prove their “identity”, and resources prove their “usefulness”. This is especially important when studying the process of economic transformation where – unlike the stable and established economic order – innovations (in a broader sense) are on a mass scale and unpredictable.

²⁸ “The intermediary can be an actor, but the difference between the two is essential, especially when we realize the *mechanism of ascription*. Every interaction includes a *mechanism of ascribing an intermediary*. Often this ascription is inscribed in the intermediaries themselves: a scientific article is signed, a technological site has a trademark. The same is true with regard to embodied skills (they are guaranteed by a diploma, a craftsmanship certificate, etc., issued by respective actors; the same goes for the so-called “track records”, documented in a specific way, for instance the professional biography of a Party functionary, an official in the special services, a highly qualified engineer, etc. One of the essential elements of the description of a given intermediary is *the identification of the actor claiming author’s rights*. This identification can always be subject to discussion. Its legitimacy is based on conventions that predefine it, and any change can only occur in accordance with these conventions. Thus, *although an absolute distinction between actor and intermediary cannot be made, the ascription mechanism is connected only with the actor*. (italics are mine everywhere – I. Tch.)” (Callon 1992: 80).

²⁹ It is also possible to focus on an ethnic cross section of the basic economic actors on the eve of the transition, considering the fact that, during the transition, “Gypsy” proved to be a characteristic that precluded access to a number of potentially profitable interactions. This is an important aspect of the economic and political transformation, where network analysis can likewise lead to interesting results, and which merits a separate study.

other resources relevant to such initiative. However, they were all active participants in the so-called “second networks”, which compensated for various deficits in the socialist economy, and they actively exchanged their specific skills and “locally” controlled resources in return for other resources, inaccessible to them and assigned according to status position in the official hierarchy. Among them we must distinguish *three subgroups*, which would later prove to have specific advantages:

1.1. *The forerunners of the mass-scale private entrepreneurship* at the start of the transition, which we discussed in the previous chapter, and which developed their activity under euphemistic appellations like “personal farms”, “personal firms”, “tenants”, “collective farms”, etc. They acted predominantly in the service spheres and small-scale production of consumption goods, where plan economy had proved ineffective. The creators of such firms were of different categories: among them were, at first, the low-rank categories of economic managers, workers, peasants, employees in trade, representatives of the intelligentsia, etc. As we will see further on, a series of legislative changes, especially Decree No. 56 enacted in the beginning of 1988, enlarged this category, so that by the end of 1989 there were 200 firms, hundreds of tenant farmers, thousands of private farmers, etc. As a whole, however, for the scale of the country, the number of these economic subjects was limited.

1.2. *The heirs of the urban and rural bourgeoisie* and other proprietors from the time before socialism, which in 1992 received considerable material and financial assets through the Restitution Law. We should add to this category the political and economic emigrants from the times of socialism, some of whom would successfully join in the economic and political life of the country, thanks to the accumulated skills for working in market conditions, skills that supplied them with specific competitive advantages.

1.3. *Highly qualified specialists*, possessing knowledge and skills that make them much sought after on the global labor market, scientists in specific branches of natural and technical sciences³⁰, engineers, doctors and nurses, people of the arts, etc. They made up the first wave of the mass emigration from Bulgarian at the end of the 1980s and beginning of the 1990s. With the growing economic crisis in the next years, there was a permanent stream of emigrating specialists, and as unemployment grew extensively, other categories joined them.

2. *The economic nomenklatura*. These are people of various management levels of the socialist economic and financial organizations. This nomenklatura was integrated into a specific community during the time of late socialism by its *professionalization*, i.e. the place of the universal commissars of the post-revolutionary period, fit for working “anywhere that the Party sends them”, was taken over by the demand of *specialized professional knowledge and skills in specific fields*. These were people whose qualification was much closer to what contemporary social studies of science and technologies define as “*heterogeneous engineering*”, i.e. a combination of qualification and practical experience in engineering and natural sciences (including the servicing and management of natural processes and technical complexes), a certain amount of economic qualification, combined with skills in organizing and managing large or small production collectives connected with the industrial application of natural processes and technical systems. When discussing the economic nomenklatura it is important to have in mind that these are *specialists that identify themselves professionally and oftentimes personally with a certain sector of the economy*, and which, except for the highest management level, cannot freely circulate between the various sectors. This is their main

³⁰ Such, for instance, are the specialists in computer technology and programming, thousands of whom migrated to various Western countries in the course of the Internet boom at the start of the 1990s. The same is true for many scientists in the natural and engineering sciences in promising fields like molecular biology, physics of solids, etc.

distinction, as we shall see, from the Party nomenklatura, whose professional specialization (“working with the cadres”) permits much greater mobility.

In view of the subsequent transformations, *it is fitting to distinguish the economic nomenklatura in trade, services (including financial services) and tourism from the nomenklatura in industrial organizations*. Firstly because the latter has the greatest degree of specialization and the strongest sector links, and its cadres usually have the most conservative careers, while the former category’s orientation, its daily work with clients, demands of its skills akin to those of the Party nomenklatura. Moreover, due to the specific conditions of the “deficit economy”, not only the managers, but all the people occupied in trade and services more or less had access to the exceptionally important resource of “control over deficit services and provisions of goods”³¹. The economic managers in the sphere of tourism were, for their part, the object of special attention on the part of the secret services and in many cases cadres or non-staff collaborators of the services were appointed to top positions in this sphere (cf. Ivanov 2004: 166-173).

The trade and services sector is different from industry in one other important respect: *in the first years of transition the possibility of quickly transforming the assets in the sphere of trade gave special advantages to the people controlling this resource*. The same is true for the financial system, which under the conditions of liberalization preserves its quality as an effective means for control over the other sectors of the economy and social life as a whole. That is why it is hardly coincidental that *trade was privatized at the very start of the 1990s, followed soon by the bank system, whereas the greater part of industrial property remained state property as late as 1998!* It was in the latter, however, that the largest material assets of the country were concentrated.

At first glance the economic managers in industry were in the most advantageous position for work in the market economy that emerged in the transition: most of them had an adequate idea about modern economy and some experience in the management of enterprises. With the development of entrepreneurship, the participation of this category of people in the privatization, especially when combined with strategic foreign investors, was perhaps the smoothest and most painless way for transforming the economy. This is what happened in Poland and Hungary, but not in Bulgaria (despite the classical examples of the factories of *American Standard* in Sevlievo); the cause of this difference is that:

3. *The party nomenklatura*. Throughout the entire history of the Bulgarian socialist regime, the economic nomenklatura was always under the control of the *party nomenklatura* (the organizational and ideological departments of Communist Party committees), i.e. under the people who possessed the most important resource in socialist society.

The political capital that defines the Party nomenklatura consists in a complex set of knowledge, skills, texts, and technical resources. Apart from *control over the cadres*” as its core feature, according to Andrei Bundzhulov³² the political capital also includes:

- Specific *knowledge* about the functioning of the apparatus (skills to motivate, organize and direct certain masses of people);

- *A circle of personal contacts*, i.e. a “notebook with names”. The essence of this resource can be captured in the expression used by representatives of the Party nomenklatura – “I once appointed you”, which actually means “I can pull you down from your position”;

³¹ The initial variant of the theory of second networks captured precisely this aspect, but overlooked the fact that second networks existed in the production sector as well.

³² Conversation with the author, September 2005.

- *Archives concerning the cadres and other databases*, in which information about the cadres is kept and updated. These archives are kept in various forms, but the traditional *paper files* predominate³³.

- *Special technical means for observing and collecting information*. Such means are an extremely powerful tool for controlling the behavior of economic actors and that is why it remained solely in the hands of the political nomenklatura, and particularly of the secret services as part of this nomenklatura. In a democratic society there is a clear distinction between the use of these means in the economy (where this is called industrial espionage and as a rule is penalized by the law) and their use for defending the national security and fighting crime. *Under socialism there was no borderline between the two*³⁴.

- *Buildings, transport means, communication system and other infrastructure*, which, besides strengthening and stabilizing the dominant position of the Party nomenklatura (holding a strict monopoly over their use), also make its dominant position visual and have an important symbolic meaning. The buildings of the city and regional Party committees and that of the Central Committee in Sofia, spatially define the center of public life and the power position of those working in these buildings. This is also true regarding the brand and model of the automobiles they use, their access to the special telephone lines and other special communication systems, etc.

Apart from these extremely important resources, two other important resources distinguish the members of the Party nomenklatura:

- *The biography* (more precisely *biographic trajectory*) which serves as password for giving access to certain opportunities; a suitable biography can open doors for its possessor;

- *An attained level in the Party hierarchy*, an exceptionally important resource that defines to a great degree the scope of the other resources to which the respective member of the Party nomenklatura will have access.

The Party nomenklatura is defined through these key resources. As we pointed out in the first part, the nomenklatura consists of *members of organizational, cadre and ideological departments of the Communist Party*. An important part of the nomenklatura were the secret services, which were the right hand of the organizational and cadre departments³⁵, and especially the services that exercised control over the economic subjects against “sabotage”, “squandering”, and “personal profiting” from positions of management of socialist property. *The great possibilities for control over actors in the economy, both ordinary people and economic leaders, empowered the Party nomenklatura with key economic functions and made up its specific “capital”*³⁶

³³ Indicative in this respect are the revelations about the experience in East Germany, where STAZI *intentionally kept this information on well protected paper files and refused to transfer it to electronic format due to the much greater possibility for copying it, tampering with it, etc.*

³⁴ Just how difficult it is to introduce and establish such a distinction in the years of the transition to democracy and a market economy (and thus to really empower the formally autonomous economic actors) is made clear by the numerous scandals about the illegal use of these means in economic and political struggles in the last 15 years.

³⁵ “Your leader is the Central Committee. You are organs of Politburo, our instrument, our eyes, ears, tools. You cannot think otherwise than as the Politburo thinks, you cannot act otherwise than as the Politburo commands”, speech by Vulko Chervenkov at a conference in the Ministry of Internal Affairs 1951 (cited by D. Ivanov 2004: 37). One of the interviewees said, “... to be a Party member was more important than being an officer of the services”. For the guilty employees of State Security could be punished by being demoted and through other administrative penalties, but exclusion from the Party meant a radical end to the career and being thrown out of the hierarchy.

³⁶ As regards the dynamics of the transition, an important idea of A. Bundzhulov concerns the *fluctuations in the value of the political nomenklatura’s political capital* by November 10, 1989: similar to the various forms of economic capital – real estate, currency, securities, and others, the “*value of political capital also changes with time*”. At a given moment it might be devaluated, but in a following period its value might rise again. This really happened in various periods of the transition: for instance the “biographies” were one of the first victims after November 10, 1989; they suddenly evaporated,

We can judge of the scale and power of the Party nomenklatura in the following excerpt from an interview with one of the respected economic actors in the time of socialism, the Minister of Energy from 1970 to 1980:

“You are young people... Look here, every Monday one read the second page of the daily *Rabotnichesko delo*. It was written there: “relieved of functions – such and such a Minister, appointed - such and such”. Even the former one, who had just been relieved, *learned about it from the newspaper*. And we ministers would joke that you had to read the second page of *Rabotnichesko delo* every Monday to know if you were still a minister [he laughs]. *We would joke about it, but there was tension. That was how it was*. I’m not saying that crazy things were going on, for I can’t imagine crazier things than what has been going on after 1990 (my italics – I Tch.)” (interview by N. Todoriev, 2004).

What has been said so far hardly leaves a doubt that, after the first phase of socialist construction, the Party nomenklatura and economic nomenklatura became the two most powerful groups in socialist society, and relations between them were of the greatest importance for the economic and political development of society. That is why it is no coincidence that the history of the top ranks of the Bulgarian Socialist Party (the former Communist Party) is marked by *several major battles between the economic and Party nomenklatura*; each time the latter succeeded in taking the upper hand. This happened in the 1960s with the utter defeat of the economic group “Bulgarian Merchant Fleet” (and before that of TEXIM), whose initiator and leader, Georgi Naydenov, was put to a fabricated trial and sentenced to prison. The same happened again in the late 1970s when Professor Ivan Popov, the creator of the Bulgarian electronic industry, later Deputy Prime Minister and member of Politburo, was relieved of his positions and appointed Bulgarian ambassador to Switzerland. The battle between the two nomenclatures, personified by the conflict between Andrei Lukanov and Ognyan Doynov, proved fateful for the transition.

Ognyan Doynov, a graduate of the famous Lovetch German Language High School, graduated engineering in the Polytechnic of Sofia, majoring in Heat Technology. After a few years of work as an engineer, he went on to the Ministry of Internal Trade. After making a dizzying career in foreign trade, at the age of 29 he became director general of the Foreign Trade Corporation *Koraboimpex* (Ships-Import-Export), with offices in Sofia and Varna, and after this corporation became part of TEXIM, he was sent to Japan, where he spent five years. At first his activity was closely connected with the activity of the firm (purchase of ships for the Bulgarian merchant fleet, etc.) and later he became co-president of the Bulgarian Japanese machine building and commercial association, created by Balkancar, which was exceptionally successful. Soon after his return to Bulgaria he was engaged as an expert in a work group attached to the Central Committee of the Bulgarian Communist Party. By the end of the 1970s he had established himself as a leading economic manager, and with his appointment to the Politburo and the position of Vice Chairman of the Council of Ministers, he achieved political influence and power comparable to those of Ivan Popov³⁷.

Ognyan Doynov’s memoirs give ample information about the rivalry between him and some key representatives of the Party nomenklatura such as Andrei Lukanov and Georgi Atanasov, in connection, among other things, with the fate of some important industrial projects of the Bulgarian economy. One of the experts we interviewed made an excellent

were annihilated. Later however, after 1994, and again after 2005, when BSP once again came to power, the biographies partially or fully regained their value and became an important resource in politics and the economy.

³⁷ Doynov explained the causes of his rise as follows: “...Todor Zhivkov raised me and actively used me for work on the problems of industry and scientific technological progress. With the implementation of some modern technological solutions, the development of the new strategic branches of the economy, he strived for personal achievement, recognition of his foresight, and to establish his authority and status.” (Doynov 1989: 2).

characterization of these differences. Comparing Ognyan Doynov and Andrei Lukanov, he indicated;

“... With regard to their functions [in the Party hierarchy] they are very similar. Doynov, however, was a “self-made man”, who had risen by himself and was known as a person with connections with the West, while Lukanov came from an old Communist family and was known to be a man of the Russians. As such, he was a threat to Zhivkov, who feared him and did not trust him fully. *But a more serious difference was that Doynov was an industrialist, while Lukanov, as head of the currency commission, looked upon things from a higher perspective, a more political one.* In his work, Doynov followed industrial logic, technological development, and [alignment with] the leading countries in the world was fundamental for him. While Lukanov remained (above all) a political player.”

One year before the changes, in 1988 Ognyan Doynov was dismissed from his position of member of Politburo and from the posts he held. Just as in previous cases, his dismissal signaled a wave of retribution against his close followers in economic and Party circles³⁸. *The political nomenklatura once again succeeded in restoring its direct control over economic power.* With this the economic reforms initiated by Ognyan Doynov in the 1980s took a completely different direction.

4. *The Trade Union and Komsomol (Communist Youth Organization) nomenklatura*

Under socialism, both were always subordinated to the Party and remained in its shadow, so that the trade union and the youth organizations in socialist society are traditionally defined as “official”, i.e. state-run. But at the end of 1989 something happened that radically changed the situation and brought to the surface the important difference between the two (not only with regard to age but also to the functional and economic differences between the two sets of cadres) and hence the different roles they would play in the 1990s³⁹.

The new Constitution and the decrees of the National Assembly at the end of 1989 about abolishing Party organizations in the enterprises and institutions led to a sharp decrease of the importance of the trade unions, until then used by the Party nomenklatura as tools for control over the economic processes. In Bulgaria, similarly to other countries of Eastern Europe, the *trade union movement underwent democratization*, the trade union *Podkrepa* entered the scene with the authority of a dissident movement and quickly gained popularity. The question was raised what to do with the enormous property of the trade unions. These and other events forced the official trade union, state-controlled until recently, to quickly reform; the change of its name in the spring of 1990 was only one of the indicators of this reformation. The strike that deposed the first post-communist government of Andrei Lukanov was supported by both trade unions: the reformed one, and newly established *Podkrepa*

³⁸ In the letter mentioned above, Doynov reveals the way he was removed from leadership of the Bulgarian economy, and his account provides important information about the means used in the struggle between the two wings of the nomenklatura and the role of the secret service in it. These means were much more subtle and “humane” than at the time of the Stalinist purges in the Soviet Union, but the results were similar: “...Since the end of 1985 [Todor Zhivkov] and his close associates tried to manipulate public opinion for three whole years with *incredible rumors about me, spread at their order by the disinformation centres of the Ministry of Internal Affairs.* It was rumoured, and always coming from “sure sources”, that I owned luxurious country houses... that I had a lot of money, foreign currency, that I took bribes, etc. In less than three years after 1986 until my dismissal [from Politburo] I was transferred to various positions, *every one of which was always at a lower level and in a more narrowly specialized field...*” (Doynov 1989: 3). We refer to this because *these methods are part of the political and economic struggle in the 1990s as well and down to this day* – very often we witness how obvious abuses and crimes remain unpunished while the prosecutors selectively turn their attention to publications in the media, newspapers connected with the former heads of such “disinformation centres”.

³⁹ In preparing this section I am particularly indebted to the critical commentaries and notes of Andrei Bundzhulov.

(‘Support’), and this was an impressive sign. *In only a few months, new independent economic actors appeared on the political and economic scene, i.e. the rapidly formed elites of these two trade unions.* Besides them there were some smaller syndicates, which played a marginal role in the various periods of the transition.

The process of transformation after 1989 brought to the surface the specific competences that the activists of the previously state-run trade unions possessed. During the decades of socialism, the trade unions had been entrusted with nearly all the activities pertaining to the social/living facilities, i.e. running workers’ canteens, professional recreation homes, providing various services for work collectives, etc. The trade union activists had the skills of managing and pursuing such activities, and, as we shall see later, similar to the economic managers in the services sector, they found themselves in possession of the resources that offered special opportunities for “private governing of public assets” at the end of the 1980s and the beginning of the 1990s. Anticipating our analysis, we will quote a retrospective study of the Bulgarian trade unions during the transition, which reveals some of the new applications of the specific skills of the trade union cadres:

“[The Confederation of Independent Syndicates in Bulgaria - CNSB, heir to the official trade unions of socialist times, and Podkrepa]... accumulated additional revenues by renting property; their representatives took part in the management of various state funds, from which they amassed mostly personal benefits: the supervising boards and boards of directors of the National Social Security Institute and the National Healthcare Institute, and others; they created privatization, pension and investment funds, thus turning into employers; they did directly lobbying for various commercial subjects and stood at the entrance and exit of enterprises, thus taking part in the distribution and appropriation of the gains; through their representatives they took part in auctions and competitions with previously known outcomes, including those in the workers-managers privatization; they used collective work contracts as screens for providing themselves with a number of privileges, and not infrequently made agreements on taking part in the draining the enterprises.” (G. Aleksandrova – “The Business of the Syndicates”, the weekly newspaper *Kapital*, issue 5/2004).

Unlike the trade union nomenklatura, *the Komsomol nomenklatura* was more closely connected with the Party one; the latter looked upon it as its “natural reserve” and the best Komsomol cadres naturally went on to work in the Party structures⁴⁰. That is why the Komsomol had similar problems to those of the Party nomenklatura about gaining legitimacy after November 10, 1989, unlike the trade union nomenklatura, whose marginal position in the political system of socialism, combined with the rapidly grown importance of the trade union movement, facilitated its smoother transformation.

The Komsomol nomenklatura however, also possessed its specific assets, which defined it as an independent actor on the eve and in the first years of the changes. First of all, the Komsomol cadres were predominantly *young people*, which in a purely biographical sense made them more flexible in responding to the on-going changes: as a group, the possibility for their radical change of biography was “ontologically possible” in a much greater degree. Komsomol cadres also had specific experience in the management of real economic assets, which would also turn into a valuable resource after 1989: they controlled the financially well-provided and extensive institutional structure of the *Movement for Technical and Scientific Creative Activity of Youths (TNTM)*, which comprised the youth computer clubs, created on a large scale in the 1980s. The Komsomol controlled the so-called “brigade movement”, through which hundreds of thousands of young people were organized to work in agriculture,

⁴⁰ In the perspective of historical sociology of socialism, a statistically significant study of biographies of Komsomol staff activists is particularly interesting, i.e. which of them integrated in the Party nomenklatura and which went on to the economic nomenklatura; here it is particularly important to know which are the specific economic sectors where Komsomol cadres hold positions.

construction, etc., in the summer season. The Komsomol possessed the youth clubs and recreation facilities, owned a tourist agency of its own, controlled a considerable part of the national sports facilities.

These real economic assets and the experience of managing them define the Komsomol nomenklatura as similar to the trade union one (and respectively make it different from the Party nomenklatura): both Komsomol and trade unions had at their disposal buildings, financial sources, whose gathering at the level of enterprise, regional, and at national level was legally regulated through the funds “Social/living and cultural activities” and “Technical and scientific youth activity”, which amounted to a fixed percentage of the budget of each socialist economic organization.

All these assets and activities would prove a potential business niche in the coming market economy, and many of the Komsomol and trade union cadres would become some of the first private entrepreneurs. A factor for this was that in the course of economic reforms in the 1980s, the independence of these cadres in the management of the economic assets they controlled had grown considerably, and they had managed to gain considerable and valuable economic experience.

What was said about the relationships between the Party and economic nomenklaturas, applies to an even greater degree here: by definition the trade union and Komsomol were always under the control of the Party nomenklatura and that is why at the start of the transition they played an important role in the Party’s strategy for transforming political capital into economic. Hence it is hardly a coincidence that the Andrei Lukanov government, as early as December 1989, left the management of the funds controlled by the Komsomol and trade unions to their newly constituted heirs, the *Confederation of Independent Syndicates in Bulgaria* and the *Bulgarian Democratic Youth* (heir to the Dimitrov Communist Youth Union). From this viewpoint *both newly established organizations can be viewed as specific “business ventures” of the Party nomenklatura*, and not just organizational transformations. No wonder that a constant topic of the media in this period was the trade union’s property and what happened to the funds of the science youth clubs. We see that the two organizations were relatively independent: after a series of scandals, the Bulgarian Democratic Youth soon disappeared from the political and economic scene, while the actions of the *trade union elites in the economy often proved wonderfully synchronic with those of other actors, closely connected with the political nomenklatura*. Anticipating our later analysis, we can say that, especially in the first years of the transition, the Komsomol and trade union funds provided capital for private business in a number of sectors, while the trade union elites played an important role in the restructuring of the economy, acting together with the representatives of the Party nomenklatura in imposing a new type (non-ideological) of control over economic managers.

5. *The lawyers and representatives of law enforcement institutions* would soon be entrusted with key economic functions.

Their role in the transition can hardly be underestimated: with the appearance of autonomous economic subjects, the need for legal regulation of their relationships grew sharply, especially if with regard to the entrepreneurial sense of property, as outlined in the beginning of this report. According to Janos Kornai,

“... After the new [economic] laws were adopted, the basic question was to provide for the discipline of their observance. This required that the courts of law deal justice quickly and effectively and punish those who did not respect the contracts and violated financial discipline. When necessary, the courts had to declare the firms insolvent and decree their liquidation. The jurists had to represent interests of the debtors and creditors, the clerks had to apply the court

decisions and conduct the respective sales, specialized staff and institutions were needed for reorganizing and liquidating the firms, etc. *Before the start of market reforms, there was no sign in socialist countries of such an apparatus, traditionally existent in the developed market economies* (my italics - I. Tch.). (Kornai 2000: 1573-1599).

We should add the following interesting observation by Ivo Hristov, concerning the causes of this situation:

“.. Despite its relatively rudimentary condition (compared with the sophisticated procedures in classical “Western” arbitrage and justice), *socialist administrative arbitrage essentially fulfilled similar functions in cases of collisions between the interests of really quasi-independent subjects*, which most economic units are. *Left to the judiciary system... were the marginal small-scale interests*, gravitating around and stemming from the private property that citizens were permitted, euphemistically called ‘personal property’... *This is one of the essential reasons why the Bulgarian judiciary system has not been in a condition to effectively regulate the drastically growing civic and commercial turnover in the years of “transition”* (my italics - I. Tch.). Having been designed for an essentially different civil court procedure in terms of form, kind, and contents, procedure that had nothing to do with regulating large-scale economic and financial streams, it was logical that Bulgarian civic and commercial justice crashed in the years after 1989”. (Hristov 2008: 75).

On the eve of November 10, 1989, *all* representatives of this sphere were not only dependent on, but *literally part of, the Party nomenklatura*. Training in law and in the specialized schools of the Ministry of Internal Affairs, the cadres were subjected to special scrutiny for reliability. The struggle for control over the organs of law enforcement and the judiciary system was, throughout the whole transition period, a hot political issue. *This was one of the areas where the clash between the “official” and “concealed” strategy of the Party nomenklatura appeared most forcefully* – on the one hand, from the very start the nomenklatura contributed to making this sphere “independent”, which was guaranteed in special sections of the new Constitution. On the other hand the victorious Party nomenklatura made special efforts to preserve its control over the functionaries of the judicial and law enforcement organs in order to use them as non-economic resources in economic competition.

The class of jurists deserves special attention for one more reason: it played a central role in some crucial transition processes, i.e. in the “private management of state assets”, such as the management of the large urban real estate inherited from socialism, the restitution of real estate, and the return of agricultural lands. Unfortunately, due to the limited scope of this study, we will not examine this process⁴¹.

⁴¹ The role of jurists in the economic transition merits a separate study. In order to illustrate the hidden potential of this theme we will point out a study by Stefan Videv on the restitution process. Analyzing the experience of East European countries in this field, he distinguishes two basic models of restitution, “*economically oriented*” and “*legally oriented*”: “... the first links restitution with the on-going reforms and created conditions for the emergence of economic subjects integrated in the market system, hence possessing real capacity for recruiting the post-restitution social strata, while *the latter leads to constituting of small-scale owners placed outside the market system and provides minimal possibilities for recruiting such strata*. Videv categorically defines the restitution in Bulgaria as something belonging to the “legal model”, the most important features of which definitely show that jurists play a key role: “... the priority of restitution before privatization, with a lack of subordination between them, the transformation of restitution from a mechanism of de-nationalization into a *judicial battle for property, the treatment of people endowed with rights as if they were plaintiffs*, rather than as potential participants in the process of de-nationalization, *the complex and long administrative procedure for satisfying restitution suits*, the lack of post-restitution regulation of the process (similar to the post-privatization one) etc.”. (Videv 2004: 7).

6. The “*contacts with potential foreign partners*” resource and the skills to enter into business relations with them, generated a specific category that gradually began to be structured in the last years of socialism and played a crucial role in the 1990s.

The heterogeneous composition of its representatives makes it difficult to define it with a single name. One of its characteristics connecting these people is that, due to the specific conditions of the Cold War and the danger of ideological influence of the West, *all of them were closely connected with the secret services*; as some of the interviewees pointed out, along with the so-called “scientific-technological espionage”, *practically all trade representatives of Bulgaria in foreign countries, as well as the employees of the numerous foreign trade associations, profiled according to production sectors, were staff members or non-staff collaborators of State Security* (usually of First or Second Main Agency of State Security). Some of these staff officers had graduated the police school in Simeonovo, while others went through special training after graduating economic or engineering specialties. In this sense we can look upon these people as a special branch of the Party nomenklatura.

On the other hand, the economic *professional experience* of these cadres makes them more similar to the economic nomenklatura, whose representatives in the last years of socialism also gained access to this resource; as we will see in Chapter Three, at the end of 1981 the *Regulations on the Economic Mechanism* granted the right to foreign trade activity to the large economic units (state economic units and other economic organizations), many of which by the end of the 1980s already owned their own foreign-trade units. These units proved veritable laboratories for “foreign trade marketing” and we will see later how some of their employees became among the most powerful economic actors in the 1990s.

That is precisely why it is worth putting this category of cadres in a separate group whose specific resource provides its representatives with special autonomy during the transition. We should add that, with the breakup of the socialist bloc, contacts with former partners from COMECON proved no less important than those with Western partners.

2.3. An important specification concerning the party nomenklatura and economic nomenklatura

It becomes clear from what was said in the previous section, that *the basic thesis of our study is this: on the eve of the transition and till the end of 1990, the basic economic tension was between the economic and Party nomenklatura, and not between the “nomenklatura” as a whole and the “democratic opposition”*. Until 1991, when the Dimiter Popov government came to office, the democratic opposition exerted indirect influence on the economic processes. So before examining the implications of this classification of economic actors on the eve of the transition, it is necessary to make an important correction in some key concepts concerning the Party and economic nomenklaturas.

As with any binary opposition of terms, this is an *analytic distinction* – it brings clarity to chaos and has a certain heuristic value in that it allows us to set aside certain aspects that complicate and even obfuscate the course of events and hamper the identification of the crucial stakes and interaction between actors⁴². But we should also be careful in using the description of concrete events - we are aware of the limitations of this procedure.

⁴² For instance in our analysis we have purposefully neglected the foreign political aspect of the relationships between the two wings of the nomenklatura, although, as we saw in the first part, this distinction is valid for the socialist system as a whole, not only for its Bulgarian variant. Both the Party and economic nomenklatura had their foreign allies, whom they used as a resource in their mutual struggle. Moreover, the foreign political aspect generated other oppositions, which cut across the Party and economic nomenklatura. Here is a discussion by Dimiter Ivaonov in his book “Sixth Agency”, which

Here are some specifications:

We defined the secret service as part of the Party nomenklatura entrusted with serious economic functions. As we shall see, many of the representatives of the service, especially those who had worked in developed Western countries, had an ambiguous attitude to the economic nomenklatura. They often took its side and sometimes became prominent representatives of this nomenklatura. For instance an emblematic figure like the founder of TEXIM, Georgi Naydenov, was a senior officer of State Security, who had spent many years as commercial representative in the Near East and Western Europe. The same was obviously true for Ognyan Doynov, who had worked for five years in Japan as a commercial representative, and later assumed strategic leadership of the technological intelligence:

“... Doynov assumed leadership of a work group for coordination and implementation of technological progress, which was assigned the task of dealing with the necessary technological and other projects, with the avenues and places from which the state should obtain them, to indicate through which organs and organizations this should be done, *whether through the Bulgarian Academy of Sciences or through commercial representatives, whether through scientific technological intelligence or the Ministry of Internal Affairs*. From 1977 Ognyan Doynov took over the strategic leadership of scientific technological intelligence. Up to 1987, when Andrei Lukanov took his place... Doynov had full information about every task that technological intelligence was working on”. (italics mine – I. Tch.)” (Doynov 2002, p. 107)

In fact the quotation “... whether through the Bulgarian Academy of Sciences or through commercial representatives, whether through scientific technological intelligence or the Ministry of Internal Affairs” indicates how the technological projects needed for industry were supplied and shows that *from the perspective of industry* (as a basis of the socialist economy) *there was a special “functional unity” between science, trade and intelligence*. As a typical representative of the economic circles however, Ognyan Doynov never identified completely with the Party nomenklatura: in his memoirs there is a short section entitled “Some Injustices”, in which he reveals the system of repression against the economic nomenklatura, a system that operated without interruption until the end of the 1980s, and discusses his attempts to defend penalized directors. Todor Minkov, one of the economic leaders saved by Doynov, would later say: “*The truth was that in places where things were going well, State Security always intervened and compromised the cadres*” (Doynov, 2003, p. 155-168). It is hardly coincidental that in the beginning of the 1980s Doynov became the initiator of the creation of the Bulgarian Industrial Economic Association (BIEA), an organization of economic managers who, in his words, were

“... probably the most wronged leaders in socialist society. The criterion for assessing economic activity was the success achieved this year compared with the previous year. But how can the results of an economic organization be good every year?... This often led to change of leadership, which did not bring about better results. Another negative influence was the existing public opinion that the engineering and technology specialists and economic leaders were as it were a “second rate” category of intelligentsia compared with writers, artists, journalists, and painters. Some cultural figures had a high opinion of themselves as being the cream of the nation, and all the others were meant to serve the needs of the “intelligentsia”. Another

sheds light on this distinction: “... Zhivkov did not like the Lukanov family and I think the reason for this was Karlo [the father of Andrei Lukanov and also a high rank Party functionary], for Andrei was still an adolescent, when this negative attitude took shape. After Andrei grew up, Zhivkov transferred his whole hatred on him. He hated the Lukanov family, but he reckoned with them because they were trusted by Moscow. The deeper cause for this conflict was in the *tacit but implacable opposition between the “red aristocracy” and the “local Party cadres*”. The red aristocracy, which included the Lukanov family, was the group of people educated in Moscow and the Soviet Union, people who had mastery of 2 or 3 foreign languages and a wide general culture. The “local” ones, an outstanding example of whom was T. Zhivkov himself, were the rest of the top-rank functionaries, who had a scant education, but the advantage of feeling greater love for national life than the “internationalists” and “Komintern” people.” (D. Ivanov 2004, p. 227).

misfortune of economic leaders was that each one of them had to fight on his own and protect himself from justified and unjustified criticisms and attacks. There was no one to defend them, to counsel them, to organize meetings and provide help... *BIEA was the only organization that supported economic organizations, promoted economic initiative, and performed coordinating activity between economic managers.*" (Doynov, 2003, p. 126).

These lines, dictated by Ognyan Doynov in the mid 1990s, leave doubts about which side he identified himself with and whose side he was on in his political career. We have all reasons to view BIEA, which copied the structure of the Japanese federation of branch industrial organizations, as a form of self-organization of economic managers, expressing their interests as a specific power group in socialism. The existence of this organization was one of the signs of a new condition of late socialist society, and after 1987 the punishments imposed on Ivan Pehlivanov and other leading BIEA functionaries close to Ognyan Doynov, were symptomatic of what would happen in the 1990s.

"Things are obviously quite complicated", one of the participants in the economic transition after 1989 admitted. Because an important component of the "capital" of the Party nomenklatura was that it comprised *representatives of the nomenklatura of specific sectors, of industry, science, agriculture, etc.* They possessed specialized knowledge and skills necessary for effective control over these sectors. That is why the possibility to pass over to the Party nomenklatura was always open to the representatives of the respective nomenklatura, economic, scientific, trade union, etc.

Under socialism a person's career growth in the field of economy, science, culture, etc., was always mediated by the political field, especially as regarded the higher positions of power; that is precisely why the formal criteria of belonging to some structure or institution are not always adequate for assessment. We should also take into consideration the *contents* of what the respective representatives of power did; in this case, we should consider whether economic criteria proper were foremost for effectiveness and led to growing independence of the economic functionaries, or whether, underlying these actions, there was a "political logic" directed at preserving and increasing political control over every sphere of public life. Such a distinction can be found in the words of one of the former economic actors, according to whom:

'... The [secret service] cops, even the most elite ones in Bulgaria at that time, they couldn't do business. They could only be middlemen, pressure you and give you opportunities, and you had to manage on your own... They are no businessmen in the real sense, but people who sell information." (interview made in 2004).

...

Chapter 4. Economic Actors during the First Years of the Transition

We concluded the previous chapter with the thesis that the basic contradiction of socialism – that between the economic and party nomenclatures – continued to exist till the very end of the system, and the ratio of forces between these two groups determined the way the change on November 10, 1989 took place, as well as the course of economic reforms in the first half of the 1990s. In this and the following chapters we will attempt to seek empirical proof supporting or belying this thesis. We will present the synthesized results of interviews with entrepreneurs of small and middle firms (especially in the branches of cosmetics and perfumery and information and communication technologies); we will present analyzed data on the processes of mass privatization (MP) and the privatization through workers-managers associations (WMA), and four surveyed cases of privatization funds, as well as two cases of large structure-defining enterprises privatized by foreign investors.

The presentation is structured around three basic points in the “official” line of reforms followed by the Party nomenclatura of the Bulgarian Communist Party just before and after November 10, 1989:

- a) Extensive development of entrepreneurship and civic initiative and support for the micro, small and middle firms created by citizens;
- b) Autonomy of the existing economic units, including the bank system, whose ultimate form is privatization;
- c) Creating favorable conditions for the entry of foreign investors.

The analysis shows that *on practically all these points, the tension between the officially propagandized reforms and the concealed line of behavior determined the highly uneven course of the Bulgarian transition and gave birth to bizarre forms of economic activity and to the respective strange actors: “nomenclatura” entrepreneurs and “authentic” entrepreneurs; de-corporatization of state enterprises; separate foreign investors, and, as we will see further below, specific economic actors created by the Party nomenclatura (“wrestlers”, “insurers”, and “intermediaries”)*⁴³. Due to the particular role of the latter kind of actors in the Bulgarian economy, they are viewed in a separate chapter, which traces the dynamics of their relationships with the other economic actors before the time of the Zhan Videnov government and during its first months.

4.1. The Entrepreneurs

We pointed out that at the end of 1980 there were more than 200 active firms operating under Decree 56, and an even greater number of various renters, private owners, etc., who had managed to gain valuable experience that gave them serious advantages over the entrepreneurs coming after them. In proportion to the size of the Bulgarian economy, the share of these new economic subjects was quite small: their whole produce hardly amounted to more than a tenth of the total social product; the private sector in Bulgaria was much smaller than in Hungary or Poland for instance.

At the end of 1989 the legitimizing of private property as equal to the other forms of property created an essentially different situation. In commentaries and analyses authors often stress how conditional this act was, given that the Party nomenclatura actually retained full control over the banking system and the enormous state property. *The importance of this legal recognition of private property, however, lies precisely in the legitimizing of a principle of economic behavior*

⁴³ Also know under various ironic designations, such as “honest private businesspeople”, “national” or “patriotic” capital, G-13, etc. (Cf. Nikolova 2008)

*that gives formal legal guarantees for appropriating the results of entrepreneurial efforts!*⁴⁴ Legalization indeed motivated people: economic statistics indicates that in the first two years after 1989 there were registered in Bulgaria *several hundred thousand new private firms of sole traders, collective associations, and sole joint stock companies, etc.* The entrepreneurs creating these firms were of various backgrounds; among them there were: outright speculators of the second networks and the “grey economy” under socialism⁴⁵; specialists in research and development units; economic managers dismissed by the governments in the first years of the transition; heirs of the former capitalists that had operated before 1947, or simply gifted people with a spirit of enterprise. All of them managed to catch the opportunities for doing business in the new conditions. Their path during the decade was fraught with hardships and often with hostile acts on the part of the other economic actors.

Box 1 - *The beginnings of an “authentic” entrepreneur*

In the summer of 1990, at the height of the oil crisis in Bulgaria, a chief economist who had recently retired from an automobile transport enterprise in a district city, decided to buy, together with his son, the first gas station officially put on sale. The price was 800 000 leva, but the son, a head accountant in the local branch of Balkantourist, managed to obtain a bank loan thanks to the help of an acquaintance of his, a director in a newly created commercial bank. Instead of mortgaging their own apartments, father and son mortgaged the newly acquired gas station itself, something the father had done before, but as a “state official in the Railways and the car combines”. The son began looking for fuel in Sofia, however it was refused him at “Petrol”⁴⁶, because his order was “not planned”. One of the officials there directed him to a recently founded private office of a colleague of his, who had started supplying small quantities from Western firms. So the son came back with his first contract for 3000 tons of fuel. He immediately went back for more: this time the father wanted a contract for 50 000 tons! They concluded a contract with the office: the supplier proved to be a US firm based in New Jersey. They started selling: “... I was a young pensioner then, all my friends were in the car combines, *they were in power*, I started offering supplies to them, and there were enormous waiting lines. I engaged the State Automobile Enterprises⁴⁷ in the large cities of southern Bulgaria, as well as some divisions of SO-MAT⁴⁸ and started selling 10 tanks of petrol a week”. By the end of the year they had sold the entire quantity, and had gained 1000 BGL per metric ton... The business picked up, they bought more gas stations, and built some...

As we saw, the mass launching of entrepreneurship was supported by a favorable public opinion at the start of the transition, for which the media, controlled by the Communist Party, had been working since the second half of the 1980s. *This line of support for widespread small entrepreneurship continued after November 10, 1989 as well, and the new opposition press added its support. Only at the end of 1991 and beginning of 1992 did the first signs of an approaching*

⁴⁴ The new opportunities for turning income (legally acquired or not) into capital is illustrated in an interview with an anonymous speculator, published in the daily newspaper *Demokratsia* on March 19, 1991. He was a guest at a “modest” cocktail party in Grand Hotel Sofia, a party “that would make even the American ambassador envious”; he is described as a person who could make 12 000 leva in a day. Before 1990 he did the same thing: exchange clothes, deficit commodities and hard currency. “I did not want to work, because my labour was not paid adequately... *I lived from day to day. Even when I did earn money, I would lose it at gambling, because there was no opportunity for me to put it legally into some kind of business*”(cf. Nikolova 2008: 428)

⁴⁵ According to a study conducted by a team under the leadership of Stati Statev, “in the 1980s the unregistered gross domestic product of the country was between 33 and 40% of the official one, and in the 1990s exceeded 50% of the official one.” (Statev et al. 2003, ch. 1)

⁴⁶ SEC Petrol, also a socialist monopolist in trade with petrol products.

⁴⁷ State Automobile Enterprise, a monopolist in the times of socialism, with branches in every large town.

⁴⁸ SEC SO-MAT, a state firm for international automobile transport created in 1960s by Georgi Naidenov, and which is now the property of Willi Betz, one of its first representatives in Germany at that time. (See Karamanev 2001)

change appear, whereby the image of the “authentic entrepreneur” would be pushed aside and very different priorities would come to the fore in the mass media.

Observant people could sense even then that, behind the “official line” of support for economic initiative and entrepreneurship of citizens, there were no serious intentions:

“... in the first years [after November 1989] there was no infrastructure for entrepreneurship in the Council of Ministers – no crediting, consultancy, information or other forms of support. *No one did such things...* Prevalent in BSP was the fear that UDF might win the elections and start a wave of revenge. In UDF there were no systematic views about market economy. Only after 1991 did talk begin about “changing the system” (interview with K. D., summer of 2004).

Paradoxically, the “official strategy” of the Party nomenklatura coincided with the reform line recommended by Western financial institutions:

“... The idea of purposeful action in support of entrepreneurship corresponded to a state strategy, not a party strategy. At that time however, there were no people thinking of themselves as a state. The prevalent urge then was *for the state to withdraw from the economy*; people believed the International Monetary Fund and the World Bank that once the reform was carried through – “liberalization, financial stabilization, and privatization” (the two international institutions insisted most of all on the first two) – the economy would settle in place of itself.” (Interview with an expert, fall of 2004)

Despite the lack of a practical policy for its support, entrepreneurship developed at a quick pace in the beginning of the transition⁴⁹. The comparison between the authentic entrepreneur at the start of the transition, as described above, and the “socialist private producer” under Decree 56, analyzed at the end of chapter two, differentiates *two basic types of entrepreneurship at the start of the transition*. It confirms the conclusion that November 10, 1989 was only a formal borderline of the transition. For both types the inherited “capitals” (social, political, knowledge, etc.) played an important role, but as we will see further on, the differences between the dominating kind of capital used by entrepreneurs and the degree of dependence on these capitals (especially political kind) proved essential for their further development.

In the first years after 1989 a *third type* of new entrepreneurship emerged, *one that was much less dependent on “capitals” inherited from the years of socialism*.

⁴⁹ In his book *The Myths of the Bulgarian Transition* Filip Dimitrov correctly emphasized the importance of authentic entrepreneurship during the first years of the transition, though he gives a rather simplified and strongly politicized depiction of events in the economy: “... the Lukanov winter of 1990 revealed the bankruptcy of the Communist state. It became evident that the enterprises were not producing, that the cooperative farms had long since gone bankrupt, that the whole functioning of the state was only apparent. People looked at themselves through the eyes of the world and saw how poor they were... Yet poverty then was in familiar proportions. *The bankruptcy of the Communist state was opening a field for initiative*. And while the big shot communists and KGB agents were carrying away the money sucked out of the Party from the state, *many ordinary Bulgarians, who had never had a taste of the big privileges enjoyed by Communists, were trying honestly to begin building a future. The impulse that the Filip Dimitrov government gave to these people was small, but they appreciated it. That is why at the end of 1992 the sad, dreary streets of the Communist cities brightened up and started operating. Enterprising people started opening niches, taking risks, getting bank loans for their modest property* (my italics- I. Tch.)” (Dimitrov 2003, p. 62). That was the time when the mechanism of non-economic control over the economic subjects started to work, which we will examine in chapter six. Paradoxically, most of the members of the UDF government and the parliamentary group were not yet aware of this, while at the same time others (especially those connected with the trade union Podkrepa and the Movement for Rights and Freedoms) were obviously or covertly helping these mechanisms.

Box 2 - The new forms of authentic entrepreneurship at the start of the 1990s

Firm E was created in March 1990 as one of the first private factories producing perfumes and cosmetics. It began as a family firm headed by a young doctor. The working rooms were on the ground floor of the family house situated in a village near a small provincial town. The capital consisted in family savings and money borrowed from friends: “we started with the family, three or four people who helped whenever they could”. The first products were hair shampoos produced by hand according to the formulas provided by the firms supplying the raw materials, while the packaging was bought from nearby Plovdiv⁵⁰. The breakthrough was made with the first Bulgarian pearl shampoo, which became popular and brought in good gains. This made it possible for the owner to develop the firm: he hired workers, brought greater variety into the production, bought machines. New production spaces were built which met hygiene requirements for cosmetics production; the firm also created its own laboratory. The fact that it was situated at a distance of about 50 km from two large industrial centers and had good communications (a highway and a railway) was favorable to this growth.

The firm E.B. was created in 1992 after the rose-distillery built by E.B. at the beginning of the 20th century was restituted and returned to his heirs. E. B. started producing rose oil in 1909. He had graduated a business school in Lyons, France. He established commercial relations with some of the large perfume companies of that time: Yardley, Shiris, Sunlight. The rose distillery he built was nationalized in 1947 but continued working under the leadership of the rose oil distillery “Bulgarian Rose” (*Bulgarska roza*), Kazanluk until 1967 when the factory was turned into a museum. In 1992 the museum distillery was returned to the heirs of E. B. with the support of the manager of “Bulgarian Rose”. Most of the equipment was preserved but serious investments were needed in order for the distillery to begin work again, which happened in 1993. At first the firm sold the produced rose oil and rose water through quotas and with the help of “Bulgarian Rose”. After a while it established its own commercial network; where its representative in the US made significant contribution to the growth of the firm.

These two types of entrepreneurship were essentially different from the first two, for their representatives are much less rooted in the former socialist economy. Inherited capitals are present here as well in some form, but the important thing is that *this entrepreneurship became possible thanks to the political and legislative initiatives carried out*, including the restitution laws, which, although incomplete, nevertheless restored private property and also destroyed the old political and state monopoly. Thanks to this comparative freedom for economic initiative, the first entrepreneurs could begin implementing their ideas and gradually accumulating experience. In this respect the statement of the entrepreneur of *firm E* is indicative:

“If there the currency had been stable, say, in 1990... if there had been order, laws, like there are now – but it was not possible for such to exist then – things would not have happened as they did. *I think things would have been worse, frankly speaking. Inflation helped us, because it supported export. As strange as it may sound, the wild inflation of '93, '94, and the even wilder of '96, '97 aided our development to some degree...* in the present situation, when the market is stagnating, when the lev becomes stronger due to the monetary board, it would be much harder for us to make a production than in that year, when things weren't so fiscalized yet, so strict, there was no monetary board. So the first stage was one of storm, of explosion, of chaos, but in one way or another, we were doing things, going in a direction.” (Interview taken in 2004).

In terms of entrepreneurship, the first two-three years after 1989 were actually a gigantic “field experiment”, in which tens or even hundreds of thousands of independent participants embarked on an adventure the outcome of which was not clear even to them. In this adventure

⁵⁰ The production of plastic wrappings for various food and medicinal liquids became a “private” family business as early as the mid 1980s. The activity of these families and the attempts made to control them was the topic of a well-known movie of the 1980s, “Dangerous Charm” (screenplay Svoboda Batchvarova, directed by Ivan Andonov, starring Todor Kolev, Nevena Kokanova).

they had to constantly respond to the challenges of changing situations within the country and outside, to inflation, sharp changes of demand on the local and foreign markets, disloyal suppliers and distributors, hostile attacks from the competitors, etc.; but at the same time they realized commercial and production successes when they were able to quickly respond to the increased demand and also maintain good quality, to decide exactly where to invest the growing gains, to manage the growing staff, etc. *How different this chaotic and risky world was from the cozy world in which the people who were allowed to be “socialist entrepreneurs” lived in the 1980s!* Not that the latter had no problems of their own, but the degrees of insecurity and risk in the two periods were incomparable.

Understandably, there were many failures in this enormous experiment, but there were also successes. Risk and insecurity in business go hand in hand with new opportunities for profit and this is the basic resource of authentic entrepreneurs. Here is a typical example of success:

“When we started being shown on television, an important point...was the enterprise shown by my partner, who said: “This is television. If it’s television, that means it’s *vision*. You can’t stand there and read off numbers!” And he invested seriously in the presentation of the data: he bought and gave away an [electronic] plate for the television, a special appliance for broadcasting graphs. And when we made this boom, the interest of different TV shows in us grew... They said to us “we can’t give you money, but here’s a place for you as sponsors”. This was pure profit, because advertising has its standards and was sold at a certain price. For instance they gave us 7 seconds for a panel... But with these 7 seconds we could pay for 5 surveys. The contract was: they pay you 50% at the beginning, and 50% after the commercial is broadcast. But it was big money. One person paid us 50% and the rest he had to pay after the commercial. He never paid us, but these 50% at that time amounted to the price of a new Peugeot! And as for getting an office, equipping it with computers, we did it on a barter basis too: we broadcast a commercial and they gave us computers. It all happened in a few weeks.” (*Interview with the creator of one of the first sociological agencies*)

The entrepreneurs tried to respond to these challenges by giving the best of themselves and mobilizing all accessible resources. Of course, *they did this in various ways*. The study of their experience reveals *the variety of trajectories*, and this is rather far from the often one-dimensional picture of the transition that the media and most economic and sociological analyses impose upon the public. Refraining from theoretical generalizations, we will describe in brief the trajectories of the three entrepreneurs that we started with:

1) *The “nomenklatura” entrepreneur*

In the mid 1990s *firm B* was successfully selling its luxury cosmetics produce in Bulgaria, Russia, and the Commonwealth of Independent States countries. But the market was developing dynamically: the impoverished population was buying less and less, while the new rich preferred prestigious Western brands of cosmetics. New private firms appeared, which, together with newly autonomous state enterprises, also started producing cosmetics and importing the packaging directly from Western producers. Until then, *the successful management “model” of the firm had implied not the presence, but the absence of a competitive environment, i.e. a privileged situation, good contacts with centers of government power, and protection provided by those centers*. This model, however, increased the administrative costs and made the firm highly vulnerable to political or economic changes. In 1997 Russia introduced a 30% increase of duties on cosmetics, which affected all Bulgarian exporters. But then the UDF came to power, as a result of which certain state officials at central and local level that had been important for *firm B* lost their positions. The combined effect of these two events was devastating: in the interview the entrepreneur accused the UDF government that it had failed to support Bulgarian exporters and had even consciously impeded commercial relations with Russia. In the same way the pro-Western local government, according to him, had frustrated a vitally important business deal with a Chinese firm.

As difficulties grew, some of the best developers of new articles left the firm. Many of the good workers also went over to the competitors. Some of the owners also withdrew. In 1998 the firm ceased its activities, dismissed the staff and “froze” its production equipment.

2) *The early “authentic” entrepreneur.*

The retired economist and his son made good profit from their petrol stations. But very soon... “... some people, the thugs with the thick necks, intervened, the courses [with illegally smuggled petrol] to Macedonia and Yugoslavia began... [They started pressuring us] and then I said to my associates: “I’ll make a goose that lays golden eggs for you! And I told them my idea... We sold everything, keeping only three petrol stations, and we invested the money in land and a factory for ether oils.” The opportunity arose with the restitution: he and his wife had inherited land in the region of Vidin and they learned they could exchange it for land in a village near Karlovo: for their 200 decares of land in the plains they received 400 decares of semi-mountainous land. When they were negotiating the exchange the villagers (the mayor) told him: *We will give you the land, but under one condition: you must do something for the village!* And he answered: “I will build a rose oil distillery! It simply came to my mind on the spur of the moment. And I had never dealt in rose industry.” He started with 15 decares, “a picturesque spot by the river”, where in less than a year he built a new factory for ether oils: “On May 11, 1993 we started distilling rose oil. We hired technologists who were versed in that craft: an old man like myself, then we put a young man in his place, also very good at his work.”

The very first year the rose distillery gave good produce, the price on the international market was also good. But, again, an obstacle arose: such products could only be exported after receiving a certificate from the Laboratory for Ether Oils in Sofia: “There were still only state structures at that time; we were the first private firm. And they did not give us a certificate, saying ‘you didn’t ask us when you built the factory’. They kept us in that situation for several years, granting us a quota of 10-15 kg for export, just enough so we wouldn’t starve. And besides, they told the foreign firms not to buy from us, that we were people without experience. In the first two years alone we had produced 160 kg of rose oil, at one time we had 300-400 kg unsold. If we hadn’t preserved the petrol stations we would have gone bankrupt. Until one day a Frenchman came to us: “Now let me see what you are producing, why is it the others speak so badly of you?” He took a sample from our produce and after a while we received a fax: he wanted to buy up the entire quantity. And that way things picked up again, we became one of the largest firms in the branch.”

3) *The new authentic entrepreneur*

“In the first ten years or so our development was pretty uneven... I think *the drops in production were due among other things to our ignorance and the meager experience we had regarding economics – in terms of marketing, knowledge of the market, and in general as producers: there was no one to tell you how to produce!* The old structures built by socialism probably had some advantages, but they could not be applied... *There was a kind of slight chaos*, there were no narrowly specialized duties. Only in recent years have things become stable, things gradually came to a situation where one person deals only with laboratory work, another with administration, a third with distribution, a fourth only with the storage, a fifth only with production.

Before it used to be hard to pay the narrow specialists. But if one wants to do a serious job, and well-organized one, one should attract such people, better-educated ones, and more stable, aged 30-35. They are more responsible; they think realistically, have good expectations for the firm, but are also more cautious, think about their future. And that is exactly what we are trying to do: to reassure people that the trend in Bulgaria is toward private enterprises. A thing like that can’t be done in one or two years. *After 1990 a big problem was the workers’ way of thinking. Nowadays*

it doesn't seem to be so big a problem: they sort of accept things more naturally, they understand they must work, must be stubborn, that the firm has to survive, that it pays their salaries, that they must be responsible people about the production, the end product, that they must always be thinking about the client. Yes, now the workers themselves are far more responsible, in other words, we, as proprietors, grew in these 14 years, but the works also grew with us."

These three passages illustrate significant differences in the trajectories of the three types of entrepreneurs. The resources and skills that shot the *nomenklatura entrepreneur* into a high business orbit turned out, by the end of the period, to be counterproductive, after they were not supplemented with new ones, adequate for the changing business environment. His firm never managed to adapt to work in a competitive environment and did not hold out when the unfavorable factors combined. In fact, in carefully analyzing the data for this type of entrepreneur, we discover an important particularity: *he hardly made any mention of his innovation and development activity, there were hardly any stories about difficulties but also successes in developing new articles*. It seems that after the successful initial investments in a guaranteed, competition-free market, the firm paid little attention to renewing its produce and seeking new market niches. Instead of investing the considerable flow of resources into new developments, it made certain investments that were perhaps effective politically, but not economically, for instance it invested 2.5 million leva in shares of private *Kristalbank*, a bank created by friends, but that soon went bankrupt. The comparison reveals one other thing: in the firm of the *nomenklatura entrepreneur*, there proved to be a shortage of one other component, a very important one in the opinion of successful entrepreneurs. They define this component as *trust*: trust in relationships between partners, between the management of the firm and its specialists and workers. This was a component of which there had been a shortage of trust before 1989 as well.

The situation is different in the case of the *early authentic entrepreneur*, who very soon came up against restrictions *imposed by force* on his activity, against those forms of control that were specific for the Bulgarian transition (and in some countries of the former Soviet Union) and were devised by the former political *nomenklatura*: "the thick-necked thugs intervened", he says, and the successful petrol station business declined! But this case also reveals the resilience of the early entrepreneurship, its ability to discover new business opportunities in a changing environment, to take risks and re-channel the resources it has at its disposal. The entrepreneur we are discussing changed his ventures several times, *but without giving up entirely what he had attained previously*: this ensured him some economic support and resources with which to react to unforeseen but inevitable risks: it was the petrol stations that saved him in the difficult period when his business with ether oils was just starting. At the end of the interview he disclosed his new business plans, which display a conscious *strategy for diversification*:

"... I decided to extend the business and now I deal with what grows most abundantly in the Plovdiv region: fruits and vegetables. I have a processing unit in the village of X: I bought 100 decares of land and we are starting to build a whole complex: green houses, a refrigerator, drying facilities, a fodder shed, all this enclosed in waste-free technology. Since there will be a great expenditure of energy, we will have our own gas heating system. I am building 18 km of gas pipeline and a co-generator with a capacity of 5MW, while the National Electric Company will buy up the excess energy. We already have a contract for the gas and now I am fighting to get a credit of 3 million euros... Our money is all invested: with the profit from the factories my son and the other partner have bought a hotel at the Zlatni Pyassatsi sea resort and then another one at the Pamporovo mountain resort. We have enlarged the hotel at Zlatni Pyassatsi: it had four floors, not it has seven..."

At the start of the transition, for many of the „early” authentic entrepreneurs diversification was also a *survival strategy*, a way of decreasing the undefined quality of business activity⁵¹. We observed this as well among the firms working in the sector of information and communication technologies⁵², and among the sociological agencies: there the leading sociological agency began electronics production for the so-called „peoplemetry”, and later opened a super-modern laboratory for genetic diagnosing; it is now building a vacation resort complex, etc. Later, in the time of economic stabilization after 1997, this survival strategy was transformed into an *expansion strategy* for enlarging business and investing the growing revenues.

The third trajectory of the *new authentic entrepreneur* shows us, however, a completely different type of development: flexible response to changing conditions and the use of unfolding opportunities, combined with the development of the chosen field of business, investing in people and know-how, analyzing the mistakes and accumulating experience. The characteristic thing here is that *innovation activity is given exceptional attention*: the entrepreneur is personally engaged in it, and over the years he has succeeded in building a small but highly qualified team of specialists in the creation of new products and their implementation in production. The firm maintains ties with scientists at the Agrarian University and the University on Food Technology in Plovdiv, and uses the consultation of importers of raw materials. We may consider that this behaviour is motivated by a „*learning*” strategy (*apprentissage*) and *long-term business planning*, followed consistently for fifteen years:

“... Currently I have announced two scholarships for a higher education in chemistry. They will study four years, then there will be a specialization, some retraining, depending on the exact nature of the work.... Then we will invest in economic specialties.

I often travel abroad and I must say that we are far ahead as an organization, as a way of thinking... *Frankly speaking, we looked at how things were, including things in the West, in 1995, 96, until about 2001/2002, but we did not begin to see. There is a situation, where a person looks but does not begin to see, to see what his basic problems really are.* I mean in terms of the staff, the equipment, the market... That’s the most important thing, *discovering the know-how*. Once we implement some know-how, the firm starts growing by the hour... *It’s not even always a matter of new products: there is know-how in the very organization of production, which brings in money* [my italics – I. Tch.]. A restructuring of things brings money and we feel we were making a mistake for years on end and we didn’t change a given sector, didn’t invest, didn’t pay attention to it... We took a few steps and things started to pick up instantly.

When we started from nothing but a basement and one shampoo, we hardly expected that one day we would make a factory and that it would grow, would determine the lives and way of thinking of the staff, their prospects: even the birth of children and the growth of their families. It takes courage, that’s all; we are intelligent people, healthy – we’re a bit lagging, but we will advance... Last year our growth was 30%, this year, I believe, it will be over 50%...”[interview made at the end of 2003].

These histories reveal the vitality and the potential of the authentic entrepreneurs. In our survey, however, we were not able to register *the sad stories of the unsuccessful authentic entrepreneurs*, of the tens or hundreds of thousands of people whose firms never managed to become active and stable as independent market actors⁵³. In the next section we will mention some of the typical difficulties that all authentic entrepreneurs have had to overcome.

⁵¹ This need is exemplified in the phenomenon discovered by David Stark and Lazlo Bruszt: instead of trying to gain full control over the firms they have acquired, Hungarian entrepreneurs purposefully strive for the state to become a stock holder in them in order to provide protection against arbitrary administrative measures and help in case of unfavorable circumstances. (Stark & Bruszt 1998).

⁵² For instance a well-known computer firm specialized in building computer networks and banking software, had a section for trade in fuels, which proved decisive for its survival at the collapse of the banking system in 1996-1997.

⁵³ A recent television program about Bulgarians on the island of Rhodes tells the story of Edita Hristova, who in the mid 1990s arrived there to work as a house servant for an elderly lady. Edita was formerly a school teacher in Sofia; in the

4.2. The corporative structure of the Bulgarian economy left over from the socialist period and its fate during the first years of the transition

However arbitrary the term “corporation” when applied to the socialist economy, at the end of the 1980s in Bulgaria the large vertically integrated industrial complexes (the state economic corporations – SEC) were predominant, often made up of several dozen enterprises across the whole territory of the country⁵⁴. Although they were active under the conditions of the planned economy, during the reforms of the second half of the 1980s, attempts were made for these SEC to develop as normal economic subjects by giving them the right to foreign trade activity; there were *even elements of competition between them*. For many of these corporations (IZOT, Hranmash, Balkancar, Metalhim, Electron, ZMM, etc.) the real markets were not in Bulgaria, but in the CMEA countries and in the third world, and corporations like Rila (clothes production), Pirin (shoe industry), Dynamo (electrotelphers and warehouse technology), etc., exported their produce to developed capitalist countries and were in active cooperation with Western partners. *The Bulgarian economy was export-oriented*, although 82% of the export was to partners in CMEA countries.

Of course SEC were quite different from Western corporations, but it was a fact that in these socialist corporations the activity of the separate enterprises was coordinated and there was a distinct division of responsibilities between the top level and middle level of management. In SEC there were separate specialized units for R&D, for strategic planning, foreign trade, etc., all components that are fundamental to modern corporation management. In the second chapter we saw that in the 1980s commercial banks were created that serviced these large business subjects by branches: Mineralbank, Elektronika bank, Biohim bank, Stroybank, etc. These banks provided current and investment credits to the separate enterprises connected with the growth and technological renewal of production. An important point was that the decisions to make investments were made by SEC, often through negotiations with the respective economic ministries. Although paying bank loans was done by the respective enterprises, the guarantees for the loans were provided by the corporations⁵⁵.

early 1990s she left work and started a business in imported ceramics. The business was developing well and she opened a network of stores in Sofia and Pleven. In the mid 1990s the thugs came to her and started extorting; then they kidnapped her son. The family paid a ransom, then sold all its property, and in 1997 Edita emigrated to Greece. In just a few years she became one of the best known Bulgarians on the island, reaching the position of manager of a large hotel owned by the family of the elderly lady. She managed to bring over her entire family to Rhodes, to found an association of Bulgarians, to start various initiatives with them. This is just one of many examples of successful careers of authentic entrepreneurs after 1989 that were cut short. Their history is yet to be written.

⁵⁴ An incomplete list of SEC operating at the end of the 1980s: Avtoprom, Agromachina; Balkancar; Balkantourist; Bulgarian Railways; Domestic Technology; Domestic Machine-building; Bulgargeomin; Bulgarkonserv; Bulgarian Poligraphy; Bulgarian Tobaccos; Bulgarian Beer and Beverages; Valentina; Vinprom; Water Transport; Glavbolgarstroy; Civic Aviation; Dynamo – Gabrovo; DZU; Electrification, Heating and Domestic Gas; Electroenergy; Electron; Elprom; ZMM; Cereal Foods; IZOT Service; Inzhstroy; Inkoms; Isstroy; Stone Industry and Building Articles; Haberdashery and Textile; Ship Building; Furniture; Metalsnab; Metalhim; Mineral Raw Materials; Mladost; Dairy Industry; Machine Assembly; Motor Technology and Car Repairs; Irrigation Systems; Perfumery and Cosmetics; Petrol; Pirin; Instrument Building and Automatization; Industrial Building; Rare Metals; Resprom; Fisheries; Rila; Rodopa; Rudmetal; Sofstroy; Stara Planina; Building Ceramics; Heavy Machine Building; Tehnoexportstroy; Tehnoprogres; Transstroy; Touriststroy; Wholesale Trade; Commercial Furnishing; Tobacco Industry; Farmahim; Hydraulics; Hidrostroy; Chemical Machine Building; Himsnab; Hranmash; Cellulose and Paper; Red Flag.

⁵⁵ Before 1987, while headed by Ognyan Doynov, the administrative system for granting credits was quite strict; the credit resource of commercial banks was distributed between the respective SEC by quotas as a kind of compromise between the priorities of economic development and the demands of enterprises. A few enterprises received loans in the framework of the quotas of their respective SEC, but the loans were granted through a contract between the bank and the concrete enterprise.

The breakdown of the Council for Mutual Economic Assistance and especially the breakdown of USSR put many of these corporations in a difficult situation: many of them lost their markets and were ousted by Western firms or Far Eastern firms, for instance those in the field of electronics and machine building. That is how the phenomenon of “bad credits” arose:

“... After the loss of the CMEA markets and the liberalization of prices and trade at the start of the 1990s, these state enterprises proved inefficient and started to generate losses. At the same time most of the credits were in hard currency and, consequently, did not melt away with the inflation and the devaluation of the lev. At the end of 1990 a large part of the state enterprises declared a moratorium on repayment of loans. ...Only in 1993 was an attempt at an integral solution made when the Law on non-repaid credits was passed, a law concerning credits negotiated before the end of 1990... the legal regulation for this category of non-repaid credits led to the issuing of obligations for 32 billion leva and 1.8 billion US dollars.” (Stanchev et al. 2004: 75)

In the economic analyses that we have studied, one of which we have just quoted, the connection between the dismantling of SEC and “bad credits” has not been studied at all. Interviews with business actors from the time of socialism indicate that before 1989 as well certain enterprises often had difficulties in repaying loans. In these cases the SEC usually intervened, most often through the fund it managed, “Development and Technical Improvement” (DTI), to which every enterprise in the corporation gave a percentage of its revenues. The leadership of SEC, being a structure that determined the development strategy of the respective sub-branch and controlled the operative management of the subordinated enterprises (which in some cases numbered dozens), was capable of responding to the changing situation or taking measures in case of bad management of some sub-division. Even though in some cases the breakdown of CMEA led to a catastrophic situation and the whole corporation went practically bankrupt, this was not the predominant situation. The fact is that after 1989 a number of corporations quickly began to become attuned to the new conditions, as in the case of SEC Farmahim, Perfumery and Cosmetics, and Glavbolgarstroy.

In the summer of 1991 however, the Dimitar Popov government issued a decree on the transformation of the economic corporations with a view to de-monopolizing and increasing competition⁵⁶. Estimating that many of these corporations were monopolies on the newly emerging Bulgarian market, the people on the government’s economic team (some of whom remained in the next cabinet, that of Filip Dimitrov) decided to dismantle them, quite in keeping with the spirit of a neo-liberal ideology. Similar to the liquidation of the Cooperative Farms in agriculture, *by the end of 1992 several of the existing SEC in nearly all sectors of the economy were liquidated*, and only a few were preserved, including NEK, the Bulgarian Railways, Bulgartabak, Balkancar.

In the early 1980s the sector of Bulgarian machine building that dealt with the production of metal-cutting machines was one step behind the best world firms. While a European firm like Gildemaister could make lathes that produced details with a precision within a few microns, we produced machines that had a precision within a hundredth of a millimeter. It was only a question of time to achieve a quality of machine building in Bulgaria equal to that of the West... Our

⁵⁶ In fact the first steps toward the division of the large SEC monopolists in their sectors were made in the course of economic reforms in the second half of the 1980s. For instance in 1987 the giant of Bulgarian electronic industry, SEC IZOT was transformed into three new formations: INCOMS, situated in Sofia and producing large and mini computers, systems for teleprocessing, microcomputers, and networks; DZU, located in Stara Zagora, producing disk memory storage devices on magnetic and optic cartridges; Peripheral Technology, situated in Plovdiv, producing band memory storage devices, type writers, and printing appliances. In the same way in the middle of the 1980s SEC Perfumery and Cosmetics was formed by separating from SEC Farmahim. The new SEC was situated in Plovdiv. The motives that led to this step require special study, but it is a fact that these measures coincided in time with the persecution of a number of outstanding “business-oriented” industrial figures who had acquired great influence at that time: Ognyan Doynov, Biser Dimitrov, Ivan Andonov, and others. Even under socialism, the large, powerful SEC represented a threat to the Party nomenklatura.

company [SEM ZMM], which was a national-level organization comprising 33 factories, was one of the first enterprises to be de-monopolized. One day the government decided to break it down into smaller parts. And this was the most powerful machine building company in Europe. It was fragmented to such a degree that the connection between the separate factories was lost... [That is why] at this stage there is no one to fund scientific units, it is cheaper to buy ready-made models. Later, by coincidence I came across the structure of a Spanish company. It had emerged on the market in the 1990s and had the same structure as the former ZMM, the only difference being that it included a bank as well. *A foreign trade organization, an echeloned set of factories for production of metal-cutting machines, schools for the cadres: all this we had had.* If our organization had continued to develop, maybe it would have come to the point of having a bank as well.” (Yordanka Radancheva: *They are carrying it away and no one is preventing it*, interview with the director of a private firm IMM – Sliven, the weekly *Kapital*, 2004).

In the early 1990s the process of “transformation and de-monopolization of state enterprises” was part of the imposed program for structural reforms and a necessary step in the preparation of these enterprises for privatization. The way in which this process was described at the time is noteworthy. In Reneta Indjova’s analysis of privatization in Bulgaria we read:

“... The transformation was combined with measures for de-monopolization. Since the middle of 1992 [the Filip Dimitrov government] formally abolished all monopolies of the commodity type (production and trade in goods and services for the population) and on the sale of agricultural produce, *as well as all bureaucratic hats above them (corporations, associations, etc.)* [my italics – I. Tch.]. Out of consideration for maintaining the country’s competitive capacity on foreign markets, the corporation Balkancar was not de-monopolized, while the former conglomerates like Inkoms-Telephone (with 20 trade associations), Metalhim (with 30), and Metalsnab (with 12) were transformed into holdings consisting of dozens of independent associations. (*Privatization in Bulgaria* 1992: 3)

This quotation is a very good illustration of how most economists involved in the reforms at that time perceived the corporation structures in the Bulgarian economy: as unnecessary, superfluous “hats” set above the enterprises. As for the fate of the majority of enterprises that suddenly became independent, one of the cases we studied is illuminating:

Box 3 - A SEC and its divisions at the start of the transition

Until 1989 the whole industry was subordinated to the economic corporation “Y” and everything was planned at the central level: revenues, expenditure, subsidies. The whole branch was subsidized until 1989. Our partners were state firms with which contracts had been concluded, and everything was proceeding rhythmically: *there was coordination*; this coordination was realized by the ministry and by the corporation. Regularly every month commands were made for the needed supplements, according to what our consumption of the produce was: this consumption was determined likewise by the ministry...

The director of the enterprise – of course, along with his normal functions, he performed some that were not natural, that were not the business of the enterprise, *but his work was facilitated. He was a chief coordinator of all the officials* that were supposed to control these things, to follow things, and so, everything went smoothly. There was a foreign trade organization attached to the ministry, and after 1985 attached to the corporation, that looked for and carried out export of the produce.

In the beginning of 1991 the six factories of the corporation became independent. The price of the main product was liberalized; that is exactly when the big drop in its consumption occurred. That is why there was a rather fierce competition between factories in the period 1991-1996. The prices on the internal market were such that they did not cover the costs of production. Along with this the prices of raw materials and energy started getting close to the market ones. And so all the factories started to accumulate external debts... (From the interview on the case of Y)

So that, even though a considerable part of SEC *did* have to perish, they were not given the chance for this to happen naturally, according to the rules of market competition. This transformation within the framework of the state property has been overlooked by analysts of the transition. In our opinion *it had fundamental consequences*, which have not been analyzed so far. Earlier we indicated the connection between the appearance of “bad credits” and the dismantling of SEC, which meant the disappearance of a *higher guarantor* for the repayment of credits. Here are some other important consequences:

1) *Dismissal of the top management in whole sectors of Bulgarian industry*

With the abolishment of SEC *hundreds of high ranking managers were dismissed*, people who possessed valuable skills in corporative management of large, vertically integrated production complexes. Anyone acquainted with the essence of corporation management knows that these skills are acquired with great efforts, through decades of experience and hard selection, with a big percentage of people dropping out. Contrary to the widespread ideological clichés about the business nomenklatura, some of these people had to start from scratch as small entrepreneurs of small firms. The proof of the qualities of the creators of these firms was the rapid growth of most firms, some of which began to successfully compete and displace from the markets the large state firms of former corporations as early as the mid-1990s⁵⁷. Other representatives of the higher business nomenklatura went to work for the “intermediaries”, whom we will discuss in the next chapter, the new economic actors of the transition, whom the Party nomenklatura had reared under “greenhouse” conditions in the early 1990s, preparing them to take actual hold of the economy. Perhaps they too would have been successful if their plans had been realized. But, as we will see in the next part, this never came about due to the political and economic conflict between the old and the new generation of the Party nomenklatura during the administration of Zhan Videnov.

Only a small part of the top-ranking business nomenklatura managed to wait for the emergence and growth of the new private holdings that emerged in the second half of the 1990s, most of which were created after the transformation of the mass privatization funds (we will analyze this process in the next part). Indeed, experienced leaders of former SEC were engaged in the management of these new holdings. However, in the first years of the transition their experience, sorely needed in Bulgarian industry, was lost, and most Bulgarian producers did not succeed in responding adequately to the massive competition of foreign producers, so that many went bankrupt or were swallowed up by foreign competitors.

2) *A highly restricted capacity for expansion on foreign markets.*

Although they were monopolists on the Bulgarian market even before 1989 and after, *for most SEC the real markets were abroad!* The experience of organizations like *Glavbulgarstroy* and *Albena* shows that an alternative strategy was possible: *a speedy privatization of the corporations as wholes, in order for them to attract, if possible, a strategic foreign investor*; such was the case of the privatization of large state firms in France in the 1980s and in Czech Republic, Russia, and the Ukraine. That was what the well-known report *Ran-Ut* recommended in 1990 with regard to SEC in electronics, textile, and clothes production, shoe-making industry, tourism, etc.

Reneta Indjova, although in favour of de-corporatization (abolishing the bureaucratic “hats”, as she put it), indicated that “... in the foreign economic sphere the commercial results are appropriated by the former foreign trade organization, which are in a more advantageous position

⁵⁷ There are dozens of examples of high-ranking economic leaders who began working as ordinary entrepreneurs in the early 1990s. One of them was Dimiter Georgiev, a former deputy director of SEC Perfumery and Cosmetics. He created his firm *Rozaimpex* after he was dismissed in 1991.

as regards associating and the formation of new joint ventures.”(*Privatization in Bulgaria* 1992: 4). In other words, with the abolishing of the “hats” in the economy the expansion towards foreign markets and associating with Western producers was left in the hands of the industrial managers and the traders in the foreign trade enterprises. In chapter two we indicated which part of the socialist power structure they belonged to (see section 2, par. 6)!

A telling fact is that *in our interviews with representatives of later-created privatization funds, we discovered explicit strategies for selection of enterprises whose connections were expected to restore the structure of some of the former SEC; former members of the previous leaderships were participating in the managing teams of these funds!* Further on we will see that this came about, though in a different form, with the privatization of sectors like pharmaceuticals industry and construction industry.

Box 4 - The transmutations of socialist corporative experience

“... Assuming that the mass privatization in 1996 was the start of a quick de-nationalization, that was when we created this fund and started buying enterprises. We chose textile industry as our speciality. By “we” I mean the team that was working then, me and other colleagues, *some of whom had worked in SEC and were familiar with this model: we were consciously making something like a SEC, so to speak.* Of course, when the state does it, things are perfect... In our case they weren’t, because there were eighty other funds and everyone was playing for the same thing. But anyway... we bought a number of textile enterprises, *and we were looking for variety in our choice. Because in this branch, one works mainly for the foreign market* and circumstances change, so that some [enterprises] are in a crisis while others are making profit. And the holding transfers the capitals. In fact the holding is exactly like the “hat” of a SEC, it can, so to speak, level the conditions and give support where there is potential, and shut down the losing unit.” (From an interview with the manager of *holding XI*)

The breaking down of SEC was a heavy blow to Bulgarian corporative business, which ceased to be an independent actor on the international markets for decades to come. Bulgarian companies would no longer have enough resources or conditions for expansion on these markets; in the meantime, we see Czech, Hungarian or Slovenian companies returning to Bulgaria as foreign investors: today *Gorenje, Krka* and other Slovenian companies are true multi-national companies, unlike the agonizing *Balkancar* or the long-since non-existent *IZOT*.

3) The destruction of the innovation potential of industry

The destruction of the corporative structure of the Bulgarian economy dealt a *serious blow to its innovative potential as well.* At the end of the 1980s this potential was concentrated basically in two types of institutions: 1) the Bulgarian Academy of Sciences and, to a lesser degree, in the universities, and 2) research and development institutes attached to the respective ministries and to various SEC. This second group was pursuing the strategic goals of SEC for developing original articles or for transferring innovations from the developed Western countries. For instance hundreds of highly qualified engineers were working in the well-know Central Institute on Computing Technology (CICT) attached to SEC *IZOT*. This was also true for the military institute at SEC *Metalhim* in *Kazanluk*, the institutes attached to SEC *Balkancar*, *Farmahim*, etc. With the abolishment of SEC these institutes were transferred to the largest enterprise in each former SEC or became independent. What happened afterwards is clear:

“... The greater part of these institutes of ministerial science ceased to exist. One reason for this was that the enterprises were in a crisis – for instance machine building was working with only 10% of its capacity. *Respectively the factories had no funds for their R&D units and consequently were not making innovations.* As for *BAS*, it’s not worth talking about. The regress is evident. [But if we look at] most of the successful private firms today, they belong to people who used to work in the

Academy or in the ministerial institutes, for instance the Bulgarian Association for Information Technologies consists of firms, nearly all of which were founded by people who had worked in CICT or BAS.” (Interview with academician V. Sgurev, former director of ITCR, BAS, author’s archive)⁵⁸.

4) Scattering of the intellectual and industrial property

Another consequence of the destruction of the corporative structure of Bulgarian economy at the start of the 1990s was the *devaluation of its accumulated intellectual property*. With the abolishment of SEC at the start of the transition to market economy, thousands of patents, trademarks, names of origin, etc., until then owned by the socialist state, became ownerless. According to one of the leading specialists on intellectual property, who has created his own consultancy firm,

“... after the breakdown of the former SEC their patent departments were closed down. There are no units or people in charge of the intellectual property of the enterprises of these structures. This created conditions for the kind of problems we witness today. During the privatization period no funds were set aside for protecting patents and trademarks. Protection abroad was rarely sought.

There has been a more active discussion recently about certain trademarks of Bulgartabak registered in Russia by private firms. How would you comment on that?

This case is typical for all trademarks owned by the previous SEC. The associations have not allotted funds and have not protected their trademarks in the markets where they were selling. There was no strategy and understanding of when and how to preserve markets... This is the case of the trademarks of Bulgartabac, of the wine industries. the perfumery and cosmetic enterprises, Ruen, Valentina.” (I. Ivanov, IP Consulting, interviewed by Gergana Mitova, March 2004).

We will continue our examination of the impacts of the destruction of SEC with two other important consequences of events in the Bulgarian economy between 1991 and 1995.

5) The impossibility of the owner (the state) to exert effective control over assets

The abolishment of SEC, combined with the postponing of privatization, left the enterprises to themselves, without experience or resources for strategic planning, and mere fledglings on the international markets. It is true that the reforms conducted in the 1980s had broken the monopoly of foreign trade associations and had transferred a considerable part of the foreign trade activity to SEC. But trade was conducted by specialized sections and members of the leadership of these corporations. Only in the last few years prior to 1989 had the leaderships of the enterprises begun to negotiate more actively with foreign partners: “we needed just a few more years to learn to manage by ourselves”, said one of the interviewed directors of enterprises. After 1991-1992 control over (and care for) the thousands of now independent enterprises was centralized in the hands of branch ministries. The changes in economic legislation adopted just then practically deprived the ministries of levers of control over the leaders of enterprises:

⁵⁸ In the beginning of 2005 the authors of the project on National Strategy for Scientific Research indicated that Bulgaria is in last position among the 25 EU members plus Bulgarian and Rumania with regard to the share of scientists working in enterprises. Today only 6,7% of researchers in our country work in firms, compared with 27,8% in Hungary, 38,4% in Czech Republic, and 62,6% in Austria. In order to approach the average values for the EU the number of researchers in enterprises should increase about 10 times! We should also note that in the end of the 1980s Bulgaria was in fourth position in the world by the number of researchers per one million people of the population, and the greater part of them were occupied precisely in SEC.

Box 5 - The breakdown of the Government's control in the economy

"... Control was weak. It can't be strong when you have seven thousand enterprises.

Interviewer: You mean to say that between 1989 and 1995 the directors, though appointed by the ministries, were in fact the true rulers [of enterprises]?

Yes, I'm saying it explicitly... *At least as far as the operative leadership was concerned, not to mention investment activity, but even in that they were almost absolute masters...* Both in terms of their behaviour and mentality, and in terms of their action... *For instance they would have a certain contract for management concluded with the respective ministry – their rights according to these contracts were pretty big, not to say almost unlimited.* There was the practice, likewise a vicious one, for representatives of the state, officials, to be on the board of directors... most of whom just received their salary without participating; but even when they did participate, they soon forgot about the interest of the state... The people who deal with this topic know... There were many abuses, on a large scale.

Interviewer: Is it normal for the state to require gains from these enterprises, as you would require from the enterprises in your holding?

- There were no concrete requirements. *In the regulations there was no such requirement*, and there was no way they could directly demand it either. The most that could be done was, when exercising surveillance over an association, they could say: "Well, you've had large losses, something here is not in order"... Now, in the 1970s, or even the 1980s, the economy was simply a planned economy: in that case the management by the state is much more direct. The state had resources to control, in fact there was mainly control without incentives: there were Party organizations, if necessary court and prosecution [laughs]... After 1989, or rather after 1991, when the association was transformed into a limited joint stock company etc., why the companies were independent then! There was no direct instrument at all with which to make them work better. *Besides, the goal was privatization, after all.* The bad thing was that during this period many companies were destroyed.

Interviewer: This lasted six whole years...

- Why yes, six whole years, and even more, because some of them are still state-owned today [laughter]." (Interview with a Economic Minister in the early 1990s, now manager of an investment fund)

We should not forget about the framework that made this situation possible. As Ivo Hristov points out, Decree No. 36 of the Council of Ministers, a process of transformation had begun as early as July 1989 with Decree No. 36 of the Council of Ministers, entitled "On the transformation of state and municipal firms into joint-stock companies", and was continued with Decree No. 7 of January 25, 1994. The change was that

"... The state through its ministries transformed its owners rights (which until recently had been administrative ones) into rights over the shares or the corporate shares. In other words the state is not the legal owner of the property within the commercial association, but is *rather an external owner* of securities, as is the case in joint stock companies and corporate shares, as is the case with limited liability companies. As the main share holder or associate in this structure of commercial law, it can realize its rights *not according to administrative order*, but the order stipulated in Decree no. 7, and above all according to the Trade Law. Consequently ... *state control is reduced to control over the politically controlled and administratively appointed management of the state commercial companies.*"(Hristov 2008: 99)

That is how the withdrawal of state and Party control over the economy was realized. According to the "official" line of reforms, *this was supposed to be a brief intermediate period between the privatization and the appearance of true owners.* *The great majority of enterprises, however, remained in this condition at least six years* (Decree no 7 was in force until May 2003!). We have all reasons to believe that this was not accidental: in fact this was directly connected with the "hidden line" of reforms conducted by the Party nomenklatura, i.e. with

6) The emergence of “*interest groups*”, the vague new master of the economy

The quoted text outlines the conditions under which what Krasen Stanchev calls “the private use of state assets” started. With the “withdrawal” of the state, economic leaders were only seemingly given freedom to act. Evgeni Peev’s study of the management of transformed state enterprises in the beginning of the 1990s shows that the state (in the person of its officials) was far from being the only factor exerting control over managers: frequently *interest groups* proved far more important; these are defined as “...all special economic agents outside the state and managers *participating in the control over the enterprises: trade unions, political parties, financial groups, etc.* The impact of these groups is informal, but perceptible, varying within different limits in the different companies... *Their impact is exerted in an underhand manner, they wield power but without responsibility.*” (Peev 2002: 121-122)

After the corporative structure of the Bulgarian economy was radically changed in 1991-1992, in the place of the dozens of vertically integrated corporative structures there appeared several thousand autonomous large and middle state firms with broken technological ties and without resources to protect themselves against foreign competitors, against the local mafia structures, and against the financial groups (the above-mentioned several monopolies were an exception). Most of the managers of most of these “orphaned” enterprises were shot down like game and quickly fell under the power of the above-mentioned “interest groups”.

Box 6 - The tribulations of an industrial leader of the early period

When the so-called “active period” of the transition began, *the state became completely disinterested in this enterprise.* I can’t say about other ones, I’ve worked in this enterprise and it’s what I know about. There are 2000 people working in this enterprise, and the state is not interested how these 2000 people will be paid if it isn’t working. *Before, concerning supplies, salaries, etc. they would squeeze the director dry if he didn’t fulfill his duties. Now no one is interested...* The centralized supplying system fell apart, the enterprise was left to drain and stop work. These things were already being contrived before, and it became quite clear where things were headed for: the aim was to sell the enterprise for one lev... Unfortunately, there were people working there who had families, children, who had to support themselves somehow, and no one was thinking about them anymore... That is when my colleague and I – he’s very experienced in trade – we started to make the round of our old clients, each one would buy a little. My colleague got a passport so he could go abroad at any time. We started with Turkey, because it was the nearest country. In Serbia there was an embargo at that time, which added to our ruin quite a bit, we were relying that the war would end so we could export there. But *private persons* appeared – they would buy from us, pay us, fill their cars and leave. Where to – we didn’t care! Later on *intermediaries* appeared, and dealing with them was profitable: we exported to Switzerland along the Danube, also to Germany, to Austria.” (Interview with a former director of a large state firm that became autonomous).

We will separately discuss the origin, identity, and behavior of these “private persons” and “intermediaries” that appeared at the entry and exit of the autonomous state enterprises. They represent the last of the key economic actors during the first years of the transition that we began to describe in this chapter. But due to their exceptional importance for understanding the economic processes at the start of the 1990s, we will devote a special chapter to them.

Before that we will conclude this section with a summary of the consequences so far enumerated⁵⁹ of the destruction of the corporative structure of the Bulgarian economy and the reasons for the destruction. Certainly the *external pressure* was one of the reasons. According to one of the experts

⁵⁹ In fact we should refer to effects” rather than “causes” in the economic processes during the 1990s that we are now registering as related to the destruction of SEC.

“... This dismantling [of SEC] was done at the demand of the Americans and the European Union. *They said there was no need for such large enterprises!* That is why at present there is not a single large trans-national corporation, ... I can tell you who took part directly in this dismantling: for instance Y, a well-known economist and politician. He abolished Balkancar...”

Interviewer: But maybe this was not directly imposed...

But please! I've taken part in talks: that is how they directly formulated their demands. It was even written in the RAND programme. The requirement was that it should be done a hundred percent, but [in the course of the negotiations] they decreased the figure. So Mr. Y was participating in some programme for the restructuring of Balkancar and they practically abolished it...

Interviewer: This was hardly done on purpose: “Let’s ruin the Bulgarian economy!” Rather, they were looking for some more optimal model of functioning...

- I have no idea whether they wanted to abolish or... In my opinion *the people who made recommendations were not serious scientists...* Neo-liberal, I don't know what they're called.

Interviewer: But there were also groups in the country that had personal interests...

- Of course, there is probably that aspect too... But the main thing is that it was imposed as an ideology from above: everything had to be broken up, no large industrial corporations were to remain in Bulgaria.”(Interview with G. G., economist)

This was the line followed by the economic experts of three governments, those of Dimiter Popov, Filip Dimitrov, and Lyuben Berov. Under foreign pressure or not, the aim was hardly “to ruin the economy”, but rather to “de-monopolize” it and create multiple economic subjects with a similar field of activity in order to stimulate competition. But from the perspective of the present day, it seems that at that time this objective had probably already been achieved with the liberalization of foreign trade and the opening of Bulgarian markets to foreign producers and traders. The competition that the latter imposed on the local monopolies brought many of these to ruin anyway. But the abolishment of a great many SEC did not permit Bulgarian producers to give a *corporative response* to this competition⁶⁰, enter the Western markets and occupy specific niches there. We recall that, thanks to the reforms conducted in the second half of the 1980s, in part of these SEC, especially those in sectors such as clothes production, shoe making industry, and textile industry, certain sectors of machine building, permanent connections with Western partners had already been established, and these sectors could easily have been privatized and restructured.

In our opinion the motives of the economic teams of these governments to so eagerly undertake such measures could not have been purely economic, nor can we explain the events by purely personal and psychological reasons. The explanation is rather sociological: *what happened fits to a great degree in the matrix of economic and social thinking inherited from socialism, paradoxically amplified and inscribed in the then prevailing neo-classical economic models.*

Here is one example: in Decree No. 12 of the Council of Ministers of February 7, 1991, which defined the functions and tasks of the new Ministry of Industry, we read: “... analyzes and assesses the impact of monopoly pressure on the firms and enterprises in industry and *proposes decisions for de-monopolization*”. (par. 3, art. 2). The next paragraph indicates that one of the functions of the Ministry is to “... prepare recommendations for privatization of state industrial enterprises”. Perhaps monopolization was one of the “demons” in the economic philosophy of neo-liberal Bulgarian ministers, just as it had been for socialist economic thinking several years earlier⁶¹. Both regulations appeared at a time when the economies of the former CMEA had not experienced true international competition. It is not accidental that during the 1980s and likewise

⁶⁰ With a few exceptions like BTK, Bulgartabac, and NEK, which retained their monopoly until the first years of the 21st century.

⁶¹ As well as for Western experts, although in their case this attitude stems from a different context, the accumulated positive experience in fighting monopolies, argued by the neo-liberal economists of the Chicago School and implemented in practice by Margaret Thatcher and Ronald Reagan.

during most of the 1990s in Bulgarian economic literature, both popular and scholarly, there were practically no studies on corporations and competition between corporations, on competition between oligopolistic markets, etc. This is evidenced by the interview with a leading figure in the Bulgarian electronics industry of the 1980s:

“I had the following case involving a top rank official of CMEA, one of the biggest chiefs in the Intergovernmental Commission on Computer Technology. I told him that if we wanted things to run smoothly, we should form a transnational corporation in CMEA, in other words, the firms on Bulgarian territory need not necessarily be Bulgarian or the firms in Russian necessarily Russian. Because, in the final account, if there are some things I can do better, and others that you can do better, why shouldn't I have a factory in Russia? Or vice versa? He said – Yes, yes, we're considering the matter. That was around 1981... Much consideration they gave it!” (author's archive, TACTICS project)

Thus, as regards the impact on the corporative structure of the economy, there was complete synergy between the measures taken by the governments of Andrei Lukanov, Dimiter Popov, and Filip Dimitrov: *all three, each in their own way, struggled with the economic nomenklatura*. The difference between them was that *in the Lukanov administration this was part of the “unofficial strategy” of the Party nomenklatura*, while the third and partly the second of the three governments tried to abide by the official, normatively regulated goals, legitimated by Western experts.

As we will see further below, this economic line during the first three years of the transition not only did not contradict but was even favorable to the strategy of certain representatives of the Party nomenklatura, especially after the latter managed to block the idea of rapid privatization of the “de-monopolized” enterprises. As we shall see, it was much simpler for the *intermediaries* created by the nomenklatura in the early 1990s to put separate enterprises under their control than to antagonize powerful corporative structures uniting dozens of enterprises and disposing of enough resources to resist financial, judicial, and mafia pressure. Perhaps that is why this line did not meet with serious resistance by the BSP, which was in opposition at the time.

Let us conclude this section with the commentary of one of the few researchers who in the 1980s had studied the development of newly industrialized countries like Korea and Taiwan. Now a successful businessman, he criticizes the destruction of the corporative structure of the Bulgarian economy *precisely from the viewpoint of the defeated economic nomenklatura of Bulgaria*:

“If we compare the post-socialist transition in Bulgaria with the newly industrialized states like South Korea, we will see that *there the corporations themselves* were created and nourished by the state, while in Bulgaria this is not the case... The Party did not openly stand in support of people like M., G. and others (intermediaries of party nomenclature – I.Tch.), while in Korea the state stood behind such people; there the state even said: “These people are private entrepreneurs, but the state gives the money. They will do private business here in Korea, because the state is not so flexible and cannot constantly stimulate growth.”

In Bulgaria things started differently: *perhaps when the Party first started to play with the dissidents things happened in secret...* I don't want to talk about things I don't know, but everything was held completely secret in the economy! I mean that Mollov seemingly came out of nowhere, but in actual fact Mollov and a number of other people like him had obviously been prepared and put into the economic turnover. But the aim was *for them to somehow come into possession of the structures that the market was newly creating, not to possess the old, already existing structures*. In other words, they were not giving the [industrial] assets. *The inherited assets were either destroyed or all this happened very slowly*. This has nothing in common with the Korean experience – the Korean experience was very successful, the Bulgarian one is very unsuccessful.”

This brief statement summarizes a very different “model, imposed from above” in the words of M. Dimitrov, for the transformation of the socialist industrial property and integration of the country into the global economy after the end of the Cold War. In the context of newly abolished

restrictions on economic relationships with Western countries, perhaps this model would have been considerably more successful if the corporations had been headed by the best representatives of the socialist economic elite or by Western professional managers, rather than by figureheads of the Party nomenklatura. The sad thing is that this way of thinking prevails even today, as one of the previously quoted experts concludes:

“... This is still continuing to this day: we are still not thinking about how to build Bulgarian transnational corporations. We are living in a global age or in an age of transnational corporations... For instance in the energy industry we can easily privatize the National Electric Company in such a way that it becomes a powerful transnational corporation in the Balkans... which will own all these electric power stations and even begin to buy new ones, in Greece, in Rumania. This could be done by privatizing through the stock market, for instance the London stock market.” (interview with G. G. summer of 2004)

4.3. *The foreign investors*

In the sphere of foreign investments the contradiction between the “official” and “hidden” line of economic reforms in Bulgaria during the second half of the 1980s and the beginning of the 1990s becomes starkly clear. Although Decree 56 created exceptional advantages for foreign investors, in the first several years after 1989 practically none appeared: in the period 1990-1991 *the official economic statistics indicates no foreign investments at all!* Perhaps the explanation of this lack of registered investors is the requirement of a certain minimal level of investment for registration; we saw from the examples of “early” and “new” authentic entrepreneurs, that as early as the beginning of the 1990s Western trade firms *were* coming to Bulgaria to supply fuel, raw materials and consumer goods. They registered their commercial offices and, sounding the markets, began examining opportunities for investing. But unlike what happened in Hungary, Czech Republic or Poland, the study of foreign investments in Bulgaria indicates their rates were minute until as late as the mid 1990s. For the entire period 1990-1996 the mean annual volume of foreign investments in our country was 63.2 million dollars, which amounted to 0.8% of the GNP (Stanchev et al., 2004, p.49)⁶². Moreover, in the first half of this period this share was particularly small, given that between 1993 and 1996 investments exceeded 100 million dollars per year.

Compared with the massive processes we have been describing, i.e. the hundreds of thousands of registered private firms, the hundreds of dismantled state corporations, and the thousands of state enterprises, in the first years of the transition the foreign investments were *just occasional cases*; they were so exceptional that we can either consider them – in the pessimistic perspective - to be a result of unique coincidences, or – in a more optimistic view – see them as the first results of a process that was cut short at an early stage (I am referring to the work of the economic teams of the Dimiter Popov and Filip Dimitrov governments). Examples of such investments were that of *American Standard* in the town of Sevlievo in 1991, the purchase in 1993 of the uncompleted Factory for Cron Products near Razgrad by the American firm Amilum, and the sale of the brewery *Zagorka* to the Belgian company Brewinvest. In all three cases there were significant previous contacts with the foreign investors and the cooperation of local government, which enabled the privatizing organs at central level to overcome the resistance of various interested factors.

⁶² In 1997-2002 the average annual amount of foreign investments was 692.4 million dollars, or 5,6% of the GDP, while in 2005 it is expected to exceed 2 billion dollars!

Box 7 - The Bulgarian model of privatization

“The Bulgarian privatization model, or rather the lack of a model, began with the mixed associations between state firms and foreign companies in the early 1990s. It is somewhat paradoxical that, despite the lack of consultants and specialized privatization organs, these projects proved more viable, and today enterprises like Faience Laufen, Serdica Danone, Vidima Ideal, Berg Fittings, Delta, are among the best working enterprises in whole regions and sectors of the economy. The subsequent institutionalization of privatization and its regulation by law proved an extra-hard task, which every government after 1992 ambitiously claimed at the start of its mandate it would pursue, but finally left as a heritage for the next government the increasingly devalued assets and an increasingly ineffective state sector... All observers of the process agree that the most optimistic year of the Bulgarian privatization was 1993, when the renowned international firms like Deloitte & Touche, Barentz, the Swiss bank UBS AG, the American Bankers Trust were chosen as consultants for the main deals... This model was following the best examples of Central European countries and proved the most effective privatization practice. *In a matter of just a few months agreements were concluded with investors like Kraft Jacobs and Nestlé, and privatizers today can only dream of the kind of interest shown at that time in enterprises that, five years later, became emblematic for the failure of Bulgarian privatization: Aviation Company Balkan, the giants of electronics industry DZU and Microprocessor Systems, the saga of BTK... [my italics – I. Tch.,.]*” (N. Staikov, T. Vasileva, P. Kushaliev, *Privatization without a Vision, Economy without a Direction*, weekly Kapital, issue 42/2000)

The large corporative foreign investors were stopped when they were just beginning to enter the Bulgarian economy. That is why *they were practically absent as significant actors from the Bulgarian economy during the whole first decade of the transition*. This absence caused serious damages to the economic development as a whole, for it deprived the emerging authentic entrepreneurs and the managers of state enterprises trying to work efficiently of serious partners and allies, predictable and well-integrated in the global markets. *The entire subsequent experience of the Bulgarian privatization and that of other countries in transition show that in most cases the presence of serious corporative foreign investors has a beneficial impact on the development of small and middle business in the respective region: by commissioning orders to local producers and buying the offered services, through effective transfer of knowledge and know-how to the newly acquired enterprises, etc.*⁶³

Why did things happen this way? Here it would be appropriate to quote the conclusion of researchers from the Institute on Market Economy who have analyzed the ten largest deals in Bulgarian privatization in the period before 1998:

“From an economic perspective privatization is effective when foreign strategic investors are involved. This conclusion follows categorically when examining the practice prior to 1998; at the insistence of the International Monetary Fund, this was the approach applied in the privatization of banks... The total income from these ten deals amounted to 38% of all incomes from privatization for this period. The enterprises belonged to various branches, and one of them was even sold through mass privatization. Some of the deals led to remarkable success of the respective enterprises. For instance in 1996 the Pirdop copper refinery was ranked among the lowest five of a hundred such enterprises in the world; in 2001 it was among the first five. *It is not clear why this course of privatization is not sought in general...* Currently this is the approach being applied in Serbia. Such is the tradition in privatization in Hungary. *One of the explanations is that the aim is to preserve control over the economy for groups that have acquired this control through private use of state assets [my italics – I. Tch.]*” (Stanchev 2004: 131-132)

In the next chapter we will attempt to supplement and specify this conclusion by indicating these concrete groups and their motivation not to allow important foreign investors coming in. Here

⁶³ See the work of Hungarian economists and sociologists on the impact of various types of foreign investors on the economy of the receiving country. (Greskovits 2003)

we can point out the connection with the abolishment of state corporations: for a long time “the interest groups” now in possession of the “orphaned” and fragmented enterprises did not find it in their interest for them to be privatized. In fact it was precisely for the large, vertically integrated economic complexes, with their human resources, intellectual property, trademarks, etc., that foreign investing partners could have been found.

4.4. On “interest groups”, the “official” and “unofficial” line of reform

In the course of the analysis in this chapter we have come to a key actor, the “interest groups”, which various researchers of the transition (E. Peev, K. Stanchev, and others) have identified as one of the causes for the delayed privatization and the mismanagement of state enterprises. But in our opinion the idea that these “interest groups oppose privatization” tends to simplify things somewhat: it assumes that *from the very start of the transition the economic actors had a crystal clear vision of what was happening and were able to fully assess the situation and formulate their interests.*

From the very beginning, however, we have rejected the idea of preset positions, competences or other structural elements of the networks and actors in networks; we have decided to view them rather as secondary ascriptions that the actors make *after* the interaction. That is why for us the quotation from Krasen Stanchev reflects mostly his own specific position in the processes going on at that time, and the assertions made in the quoted text can hardly be accepted at their face value. The productive approach would be to supplement them with a *posteriori* interpretations by other actors that took part in the events. Here is one such assessment:

“...In Hungary I was told: we chose fifty of the most attractive enterprises and offered them to investors with a clear address, i.e. large legitimate firms like General Electric, not off-shore ones... When we returned to Bulgaria I proposed this idea to UDF. But they were categorically against it, saying: “This would mean giving everything to the Communist economic nomenclatura!” That is why they jumped ahead to this restitution... [Thus] an enormous amount of social energy went in the wrong direction. Old industrialists like Saraivanov came and started talking about how important property was, how they had lasting friendships with the West from 50 years ago, how they would restore the ties with the children of their partners of the past, etc. This was completely Utopian. But they wanted to get back their buildings, their little shops, warehouses... But things were quite different: *during these 50 years completely new industries had emerged, that were quite non-existent before. The old industries had become incomparable with what they were in the past.* In my opinion the former owners should have been compensated in cash and given the opportunity to do business “now”. It is interesting to note that BSP did not oppose the course of restitution before privatization – in that party there were people who were glad to get back 300 decares in Dobrudja (fertile plane in North-Eastern Bulgaria) or an apartment in capital Sofia... *That was as far as their economic thinking went! No one was thinking of becoming a “captain of industry”, of competing with the big world businesses.* Perhaps O. Doynov was thinking of it, but he was done for: he was chosen as one of the scapegoats.” (Interview with an economic expert of UDF of the early 1990s, June 2004)

We have no access to actual debates among experts and politicians, the kind of debates that were carried on in the beginning of the transition concerning the reforms, and that is why it is hard for us to reconstruct their arguments in connection with various decisions. But in comparing the different theses expressed *today* by the experts that had taken part at that time, we are able to at least partially reconstruct the situation and assess the importance of “notions” of the socialism that had just ended and of the capitalism that was coming; these notions were a resource through which the actors at that time interpreted the events, formulated their interest, and motivated their decisions. Identifying these notions is part of the more general process of identifying the real actors in those events, the resources and stakes in their measuring of strength against one another. This will be the topic of our analysis in the next chapter.

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