Development and Crisis of the Centrally Planned Economy in Bulgaria.

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Abstract.

Bulgaria is probably the most appropriate scenario in which to analyze the functioning of Soviet-style planning. Here being maybe there where this system has been applied in a comparatively more orthodox way, in spite of some peculiarities. This article examines the transformations that took place within the Bulgarian economy between 1944 and 1989 with the aim of analyzing the causes of the crisis of the planned economy. The process of economic development experienced in Bulgaria traced the intrinsic limits of the planning mechanism. Several attempts to modify this mechanism were introduced to allow the continuity of the growth process. This study analyzes to what extent these reforms constituted real modifications to the pattern of centralized planning, and considers their inability to avoid economic crisis.

The aim of the reforms toward the decentralization of the economic mechanism failed. All the changes introduced may be described as conservative, bearing in mind that none of them constituted any real deviation from the centralized pattern. In any case, only certain kinds of administrative decentralization, improving central control through the simplification of the system and broadening of the powers of the intermediate levels of the administrative structure, took place.

Introduction.

Probably, as McIntyre says (1988), Bulgaria is the most appropriate scenario in which to analyze the functioning of Soviet style planning, because it is maybe there where this system has been applied in a comparatively more orthodox way, in spite of some peculiarities. Even more so than in Soviet Union where, due to the implications of its extraordinary size and the demands of its role as military superpower, elements of non-systemic character that conditioned the evolution of its economy appeared.

The article examines the transformations that took place within the Bulgarian economy between 1944 and 1989 with the aim of analyzing the causes of the crisis of the planned economy. The process of economic development experienced in Bulgaria traced the intrinsic limits of the planning mechanism. Several attempts to modify the economic mechanism were introduced to allow the continuity of the process of growth. This work analyzes to what extent these reforms constituted real modifications to the pattern of centralized planning, analysing their inability to avoid economic crisis.

The article outlines three stages: firstly, the decisive period of the definition and consolidation of the centralized planning system, going from the post-war years to the 60s, when some symptoms of systemic contradictions began to appear; second is the period starting from 60s, characterized by successive attempts to introduce changes into the system to correct its shortcomings, which, in this case, didn't solve the problems; thirdly, we look at the definitive exhaustion of the system in the 80s where the factors which lead to the final crisis and the situation that the transition period inherited are analyzed. The work finishes with a chapter dedicated to conclusions.

1. Creation and consolidation of the centrally planned economy.

1.1. The industrialization pattern.

After the revolution of September 1944 and the rise to power of the Bulgarian Communist Party (from now on BCP), the period of post-war reconstruction and the first institutional changes in the make-up of socialism began in Bulgaria. During the 50s the pattern of centralized planning was consolidated and a Soviet-type strategy of industrialization established. Thus, the complete socialization of property, as much in industry and trade as in agriculture was brought about and the mechanisms of imperative planning were developed with the creation of the sector economic ministries and their corresponding bureaucratic-administrative apparatus.

This new institutional framework propelled the industrialization of the country through the impulse of classic heavy industry, according to the proportions set down in the five-year plans. A model of extensive growth was adopted based on the harnessing of resources from unemployment and manpower from agricultural collectivization and strong injections of capital into key sectors, as defined by the system of planning priorities. Agriculture bore the weight of industrialization. The necessary accumulation of resources in order to develop industry came from the extraction of resources from agriculture (“law of primitive socialist accumulation")[1], and this process was notably facilitated through agricultural collectivization.

As regards external trade, the state monopoly established itself and consolidated its subsidiary role. The logic was to import what was needed in the country and for industrialization products, exporting the same quantity to finance these imports. In this context the establishment of commercial relationships with the USSR was fundamental: its contribution to Bulgarian industrialization and agricultural mechanization was in the form of free scientific-technical assistance, the supply of machinery and raw materials and in the granting of substantial subsidized long term loans.

In the labour sphere the central government achieved the proportion wanted between accumulation and consumption by the mobilization of manpower through administrative assignment procedures and control in wage fixing, thus economic development was directed according to the established priorities. At the same time workers' motivation mechanisms were pursued via moral incentives (through the campaigns of socialist emulation and the figure of the work heroes) and the key role assigned to piecework to assure the carrying out of the highly marked industrialization rhythms.

Agrarian collectivization began timidly in 1945 and from 1948 a more resolved impulse took place principally through material incentives, although in practice coercive measures played a fundamental role with an increase in pressure on private farmers. Among the less voluntary stimulation practices there were more pressure on private farmers than on the cooperatives in obligatory deliveries and taxes, the compulsory purchase of agricultural machinery and the setting up of the Machinery Stations as the sole possessors of agricultural machinery, as well as threats and arrests for farmers reluctant to put their land at the disposal of the cooperatives.

So, in June 1958 the end of the process was announced, with 92% of all arable land having been collectivized (Brown, 1970). Bulgaria became the first country of Eastern Europe to bring to an end the collectivization process. Once achieved, the objective now was the regrouping of the collective farms: thus 3450 working units with an area of 1000 Ha were concentrate in approximately 1000 with an area of 4500 Ha (Berov, 1980), that is to say the biggest in the Eastern European countries outside the USSR.

[1] Through the fixing of prices for industrial products higher than agricultural products and the placing of taxes on agricultural incomes.

1.2. The evolution of the economic structure.

The impressive transformation experienced by the Bulgarian economy from the ascension to power of the BCP until 1965 presents us with the following characteristics:

1. Complete socialization of the economy. The share of the socialized sector in the Net Material Product (NMP) was 99.7% in 1965 (Brus, 1986).

2. Economic growth. Bulgaria experienced high rates of economic growth, although with considerable fluctuations. NMP growth during 1950-1965 was 290.6% (Shoup, 1981). Industrial production increased 17 times during 1950-1964, the ferrous metallurgy, electric power, machinery construction sectors and, at the end of the period the chemical sector, showing the highest levels of growth (Feiwel, 1977). Taking agriculture, the growth rate during the period 1948-1965 was only 73.6%, and only by the middles of 50s pre-war levels were definitively surpassed.

3. Industrialization. Bulgaria transformed a fundamentally agricultural society into an industrial economy. If in 1939 industry only represented 15% of the NMP and agriculture 65% then in 1965 industry represented 45% and agriculture 33%[2]. Meanwhile, in the industrial sector the commodities production industry began to loose its relative backwardness as regards to consumer commodities. As for other branches, the metallurgy, mechanical construction and the chemical sectors improved their positions, while the textile and alimentary industries lost in importance, although the latter still represented the most significant part of industrial production.

4. Evolution of the agrarian sector. The low level of net production (lower than average in Eastern Europe and inferior to the pre-war levels), high growth of production costs, depreciation and the drop in productivity as much per person as per hectare (again, below Eastern European levels) indicated serious problems in the agrarian sector[3]. Bad administration carried out by the military and party members, the lack of the representation of peasants' interests and climate factors, as well as the low quality of the resources dedicated to agriculture, were the causes of these poor results.

The development of private farms deserves a special mention. Although in 1960 they only occupied 8.6% of arable land they represented up to a quarter of the total

[2] In spite of the unquestionable quality of the phenomenon, we should point out that the participation of each sector is distorted by the establishment of low agricultural prices. Looking at the evolution of employment distribution, if in 1948 rural employment represented 82.1% of the total, in 1965 it fell to 45.3% and employment in industry and services rose to 54.4%.

[3] See MARCZEWSKI (1975) and DOBRIN (1973).

production of some products (such as fruit, potatoes or meat), making up a large part of farmer's incomes. Apart from the apt production conditions for these types of products on smaller farms, also more time dedicated by the cooperative members and the families to their own plots and the use of non-counted resources taken from the socialized sector could explain this favourable evolution.

5. Productivity levels were among the lowest in the Eastern European countries. According to data from Marczewski (1973) total production and industrial production per worker in Bulgaria in 1965 represented 2/3 and 1/2 of levels in Czechoslovakia respectively.

6. Foreign trade. Industrialization rhythms determined import needs, but in turn limited capacity to finance the required imports with exports, obeying the logic of a pattern of trade balances. Nevertheless, credit assistance from the USSR allowed the appearance of deficits and avoided drastic interruptions of imports[4].

As regards the structure of external trade, imports production goods represented nearly 90% and consumption goods only something more than 10% during the whole period, as for exports almost half were consumer goods, fundamentally agricultural, although a progressive increase in the participation of exports of production goods was significant. As for the direction of the trade, Bulgaria was strongly integrated as much with the CMEA (83.9% of total trade in 1960) as with the USSR (53.1%), which provided energy supplies, raw materials and machinery. It is necessary to highlight that from the beginning of the 60s trade with non-socialists countries started to increase, mainly with Western Germany, which provided machinery, and with underdeveloped countries.

7. Backward living conditions. In spite income per capita growth (tripled between 1948 and 1964), in 1965 these presented very low levels in comparison both Western countries and with Eastern European countries. Also, as a consequence of the priorities of industrialization Bulgaria showed one of lowest levels of total consumption in Eastern Europe[5].

In the education and healthcare sectors some improvements took place. For example there was a considerable reduction in illiteracy and an increase in secondary

[4] A calculation of the credits from the USSR between 1948 and 1962 locates the total volume received around the 1.000$ million. With credits of the USSR being approximately some 25% of total investment during the whole period. According to GOLDMAN, M.G.: *Soviet Foreign Aid*. New York. 1967, mentioned in BROWN (1970, p. 297).

and higher education[6], and also a reduction in the infant mortality rate. On the contrary, the housing shortage, mainly in the cities, was partly attributable to the urbanization process linked to industrialization, although also to the drop in the priority given to the sector[7].

1.3. The limits of the process of growth.

In spite of economic growth there were still some problems that could stop the continuation of the process. Imbalance in industrial growth based on the heavy industry and the backwardness of light industry, agriculture and services started to be more and more problematic. The growth rate started to slow down[8], indicating difficulties in continuing with this extensive-type growth, characterized by the massive incorporation of productive factors and high consumption of materials. The first limit was the shortage of natural resources of the country, which meant heavy dependence on the imports of raw materials and energy. Another was the decrease in the available human resources after the end of the rural exodus during collectivization and the decrease in population growth rate[9].

The problems of manpower and resource shortages had a systemic character, being themselves a consequence of the regulation mechanism. This showed itself in the tendency to accumulate resources along with their under-use by the enterprises[10]. This protective mechanism being the outcome of the need to fulfil production plans as the indicator of the success of the enterprise, and of the uncertainty in the supply of materials, all this being facilitated by the existence of weak budgetary constraints, which this insatiable thirst for resources.

Low productivity was characteristic of this type of growth. Because they could block the execution of the plan there were difficulties in the introduction of the technical innovations. Productivity problems also had an effect on worker-consumer dissatisfaction, these not observing substantial improvements in their material well-being neither having the possibility of influencing economic or political decisions, this

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[5] With special backwardness in the consumption of some durable goods (telephones or televisions) and of meat, milk or eggs.

[6] According to a United Nations study mentioned in DOBRIN (1973, p. 158), the number of students registered at University was higher than in other CMEA countries, France, Western Germany or Norway.

[7] In 1965, 23.1% of population shared a dwelling with at least a family or more, and the great majority of population lacked of a system of running water, sanitation or heating.

[8] The rate of NMP annual growth for 1951-55 was 12.2%, 9.6% for 1956-60 and 6.7% for 1961-1965. (Marczewski, 1975).

[9] Due to the reduction in the birth rate after the incorporation of women into the labour market.

was translated into absenteeism, low work discipline and high level of manpower mobility (facilitated by the shortage). Of course, the problems of worker qualifications as well as bad management, more often as not valued on political merits, could only have worsened the problem.

Also, the system showed uneven development. The abundance of certain products accumulated in the stores coexisted together with the shortage of others. The backwardness of agriculture hindered the development of industries dependent on agricultural inputs. The creation of new capacities (in the metallurgy or the chemical sphere) ran into difficulties with raw materials and energy shortages. The multiplication of unfinished investments in new projects, consequence of the over-stretching of resources on many projects and problems with the qualifications and skills of the workforce and other resources already mentioned, contrasted with the obsolescence of the underinvested branches. The reduced supply of consumer goods, a low-priority industry, together with the lack of control in wage growth as a mechanism for increasing the production of the high-priority sectors, caused the shortage of consumer goods which translated into inflationary tension, queues and mandatory saving.

The process of economic development and the growing complexity of the economy lead to, on one hand, the growth of an enormous bureaucratic-administrative apparatus in charge of the management of the system. This introduced rigidities into the management of the production units through of the multiplication of compulsory administrative orders. On the other hand, it became more and more difficult for the centre to order the numerous priorities and to rationalize the development process through planning. The diagnosis of the leaders when faced with these observed problems referred to “the discrepancy between the level of development of the economy and the old management system of the national economy"[11], which lead to a discussion on the necessity of reforming the system.

2. The reforms of the 60s.

2.1. The reform of 1965.

By the middle of the 60s, the decision of Bulgaria to reform the system was conditioned by the reformist wind blowing over the whole of Eastern Europe, although

[10] See Chavace, B. (1987).

[11] As it was reported in the official newspaper of the party *Rabotnichesco Delo* on 30-7-1966. See DOBRIN (1973, p. 25).

economic tensions here were less than in other countries, such as Czechoslovakia or the USSR (Brus, 1986). In any case, the reforms had their origin, as Wiedemann points out (1980), in the confirmation of the problems that the centralized system presented and the impossibility of completely developing a detailed plan for the future. The impossibility of this was related to the growing complexity of the economy and economic data and with the multiplication of priorities, a consequence of the modernization experienced. This necessarily complicated the task of planning and decision-making in such a way as to make them ineffective[12].

The objective was not a systemic change of the planning system, but the introduction of adjustments that would reduce friction within the system. It was, in the words of Wiedemann (1980, p. 5), “a change in the direction of techniques designed to increase the efficiency of the planning of the earlier traditional centralized system while maintaining the traditional aims and objectives of the central planners. The objective... was to achieve the central objectives better - that is to say, a new economic and administrative mechanism to carry out the same objectives more efficiently."

Inspired, at least in theory, by Liberman’s proposals of 1962, the New Management System had as objectives, as Vogel indicates (1975, pp. 204-205), “the increase in the decision-making powers of enterprises with a simultaneous reduction in the scope for intervention by central authorities, an improvement in the system of success indicators, material incentives and the price system, along with the rapid introduction of technical innovation and a more rational capital and employment structure."

This reform was presented as a process of economic decentralization, and although it increased the independence of the inferior units of the administrative structure to certain degree, it didn't however introduce any market mechanisms that would determine either the establishment of the prices, decisions on new investment, or even input exchange between enterprises. The fundamental changes introduced were the following:

1. Grouping of enterprises based on the administrative structure via horizontal and vertical integration around the new Economic Associations of State (*Darzhavno*

[12] It is this that Wiedemann (1980) describes as the *kj problem*: numerous orders to transmit (k) to numerous production units (j). It would be necessary, therefore, to reduce the number of production units and the number of orders emitted from the centre, through the reduction of the number of obligatory indicators (as in the reforms of 1965), or through the delegation of powers in favour of the inferior levels of the administrative structure (as in the reforms of 1968).

Stopanstvo Obedinenie, DSO), created in May 1963. It was foreseen that the DSO would exercise certain authority over their enterprises, after a little delegation of powers on the part of the centre; nevertheless, enterprises continued being responsible for the execution of their plans.

2. Maintenance of the imperative planning and introduction of the concept of “planning from below", so that enterprises sent their own projects to the centre, where they were coordinated with those of the rest of enterprises.

3. Bigger confidence in indirect economic instruments in the pursuit of established objectives and, therefore, reduction of the number of obligatory indicators for the enterprises to four: production volume in physical terms of certain products, maximum ceiling on capital investments, input volume and external trade volume.

4. In the financial sphere the self-financing principle was introduced. Profits should become the main source of finance and the fundamental indicator of the success of the enterprise. A company could retain up to 70% of profits for distribution among its funds (Lampe, 1986). The Development Fund, whose size differed according to sector, would be fed by profits obtained, besides receiving part of amortization. The financing of the investments of the company would come fundamentally from this fund and from bank loans; although budgetary grants continued to exist, mainly in heavy industry. The objective was to eliminate the need for investment of the enterprises, making more effective use of capital, this being also subjected to a 6% tax. In any case, investments continued to be centralized in such a way that the autonomy of the enterprises in this aspect depended more on financing available than on the decision to invest.

5. Link between incentives and profitability of the enterprise. A greater use of material incentives for the workers was pursued, linking remuneration to business results to a certain measure. Wages would include a part guaranteed by the salary fund and another variable part depending on the success of the enterprise, represented by a part of the profit.

6. Introduction in stages of a triple price structure, which should reflect the social needs costs better and observe world prices. This way, fixed prices should be set down for production and basic consumer goods, variable prices negotiated between the enterprises for secondary goods and free prices for a restricted number of consumer goods of local importance.

To value the effectiveness of this reform it is necessary to point out that it was abandoned in 1968, without having had time to ascertain its viability. In any case, during its lifetime the enterprises working under the new system made up 70% of industrial production, as well as the whole agricultural sector (Feiwel, 1977).

Even Yivkov admitted that the results were not satisfactory and that many measures were not fully introduced or weren’t put unto practice at all. The restructuring of the price system of never took place, the centralized system of supply didn't change and the restructuring of the salary system was very slow. The financial instruments didn't play their expected role: in 1965 finance from the bank loans reached 7% and in 1967 only increased to 10%; state subsidies to non-profitable enterprises also continued (Feiwel, 1977). Also, the enterprise managers were conservative in their putting into practice of the reforms, due partly to the lack of necessary qualifications to work within the new framework, and profits were not used as the main criteria.

In any case, we should point out that the general thrust of the reforms was not very audacious. The centralized system of supply continued to impede the establishment of horizontal relationships among enterprises; investment decisions were not decentralized; the structure of prices didn't reflect market needs but rather was a means of transmission of the objectives from the Centre to the enterprises; the objectives of the enterprises even continued to be expressed in terms of gross production (and not in terms of realized production, as in the USSR); and also, the new system didn't include key sectors as metallurgy, chemical or energy.

Pressure of planning and the traditional practice of imposing tasks indiscriminately on the enterprises by the superior authorities continued, so that there was never any real independence for the companies. Neither the introduction of technical innovations nor increased productivity were given enough stimulation and companies continued storing more productive resources than necessary, this being confirmed by the inability of the system to develop a model of intensive growth.

2.2. The recentralization of 1968.

After dissatisfaction with these reforms some changes were introduced in July 1968 putting emphasis on administrative control from the Centre, a situation that would be prolonged until the beginning of the 80s[13]. The reinforcement of this control came through the consolidation of the associations (DSO) as planning units, diminishing the importance of the planning from the Centre in favour of the growing role played by the

[13] The fear of political uncertainty also influenced the decision, as happened in Czechoslovakia, and the desire of joining the USSR in that question.

DSOs in decision-making, while production units themselves lost their independence. At the same time, planning techniques were improved through the introduction of mathematical methods and computer techniques.

The DSOs underwent a process of concentration, becoming the key organs of decision making, while companies lost any apparent autonomy they might have had (although they still drew up their own balance sheets and maintained their own account with the Sate Bank), becoming mere sections of the associations. Each DSO received its plan directly from the Council of Ministers, these ministries losing their role as planning and control agencies, giving up this authority to the DSOs; there role was now limited to that of coordination.

Commitment to these new administrative methods meant abandoning the more innovative features of earlier reforms, such as planning from below, the raising of wage limits or the triple price structure. The structure of the financial system would remain, although its fundamental mechanisms were diluted, especially regarding the role of profits, these no longer being the main pricing criteria for enterprises. The addition of new obligatory indicators (maximum limit of the salary fund, the introduction of new technology, a specific volume for contractual deliveries) reduced the autonomy of companies still more, diminished now even further as the DSOs too could add their own indicators.

The greater role granted to the associations and the concentration process were pursued to increase the efficiency of the system through specialization and the simplification of the information flow between the production units and the decision-making organs. But the associations didn't mean the elimination of a conflict of interests that distorted information; on the contrary, they consolidated themselves as a more powerful unit than Centre, exploiting their monopolist position, manipulating information and the fulfilment of objectives. The reconciliation of interests depended, in the end, on control capacity and the incentives of the system; this being exactly what the Bulgarian leaders couldn’t achieve.

2.3. The changes in agriculture.

From 1970 on, the policy of the industrialization of agriculture began through sector specialization, the concentration and horizontal and vertical integration of production units into complexes and the introduction of industrial production methods. By the end of 1971 the 744 agricultural cooperatives and the 56 state farms had merged into 166 big Agro-Industrial Complexes; later, in 1973, this integration would be reinforced by industry, with the creation of the Industrial-Agrarian Complexes that joined together agricultural units and industrial enterprises of food production and commercial distribution. The creation in 1976 of the Agro-Industrial National Union, which in 1979 substituted the Ministry of Agriculture and the Food Industry, to be constituted as the central authority on agriculture, the food industry, agricultural machinery, agro-chemical and agrarian investigation, confirmed this integration.

The complexes, like the associations within industry, were subjected to the central plan, although they enjoyed certain autonomy in decision-making. In 1975 farms lost their artificial autonomy becoming sections of the complexes. They were subdivided into brigades, as would happen later on in the rest of the economy, which took charge of a section of land or production line and were governed on the basis of internal autonomy. Also, also since 1970, small private plots began to be stimulated, although not very vigorously, because of the importance that these acquired as producers of certain goods and to complement agrarian incomes.

3. Reforms in the 80s.

The so-called New Economic Mechanism (NEM)[14] was started first in agriculture and in foreign trade organizations in 1979 and later on extended to industry at the beginning of the 80s. Its purpose was to grant greater autonomy to lower-level units, mainly to the brigades as minimum units of production within a company, as well as to impel complete financial self-sufficiency for all economic organizations, including the brigades.

The objectives, as they were defined by the economists of the Committee of Planning, were: "to establish better balance between decentralization and centralization; to extend the scope for the initiative and independence of the economic organizations (particularly in decision-taking on management and production processes); to promote the conformity of production to the conditions of the market...; to assure self-financing in economic-productive activities through cost accounting; to introduce new financial relationships between the State and the economic organizations and among and inside

[14] The similarity with the Hungarian NEM is purely semantic, because the Bulgarian reforms didn’t go as far as the Hungarians.

such organizations; and to apply incentives to workers and managers linked to improvement in the profits of the economic organization"[15]

The aim was to introduce technological changes into the economy, to raise productivity, to improve production quality and to increase external competitiveness to eliminate the growing external debt. The main measures, introduced firstly in 1979 and, in a second wave, in 1982-83 were the following:

1. Subdivision of the production organizations into separate work units called brigades (around 16 per enterprise) endowed with considerable autonomy to become the key organs of self-management within the enterprise. These brigades could decide how to fulfil the state plan, decisions on labour and input needs were required, and they were also responsible for the finished product and rewarded according to profits.

2. Although imperative planning continued, the structure and the number of indicators changed: the DSOs would receive 5 obligatory indicators, among these a new index of realized production (sold and accepted by the client) in physical terms, whose objective was to increase the client's influence and to improve quality, and the index of net production value. Also, the DSOs would give 4 more indicators to their companies: production volume for types, production cost per unit, tasks for the application of technological changes and maximum number of employees.

3. In the financial sphere the principle of self-financing for all the economic organizations was emphasized, each economic unit and brigade being responsible for its profits; investment funds, as well as remuneration, would come from profits. As for external sources of financing, state subsidies should only be granted in exceptional circumstance and in the short term, while the resources from the bank loans should gain in importance. In this aspect, the central bank had greater freedom to decide on the concessions of credit[16].

Also, the limit on short term investment was eliminated, but not on long term. The investment plan would be based on contracts established between the enterprises and the central bank, although the enterprise needed the authorization of its superior economic organization.

4. The rest of the economic mechanisms were altered very little: wages linked to profits, prices fixed centrally, centralized assignment of supply (although the

[15] Quoted in Kaser (1981, p. 88).
[16] So, it was possible to reduce the number of non profitable projects from 56% in 1976 to 27% in 1981 (Lampe, 1986).

associations were allowed to negotiate exchanges after the fulfilment of set targets and according to the objectives defined by the plan) and a state monopoly on foreign trade (although joint-ventures were authorized with Western countries in an attempt to stimulate exports).

5. However, a more tolerant policy toward personal economic activities was significant[17], mainly the program of 1980-81 for creation of small companies for the attention to market needs through the production of consumer goods and the incorporation of the latest technology. This was developed by the recently created Bulgarian Industrial Association (a voluntary group of enterprises and associations parallel to the ministries, whose objective was commercial promotion and the improvement of efficiency); its success contrasted with the failure of the big associations and complexes of the NEM.

Again, this attempt to reactivate economic expansion, to introduce technological innovation, to improve quality and to increase the population's material welfare was frustrated. These limited reforms were not able to overcome systemic problems and leaders continued complaining about the existence of poor controls, poor work discipline, lack of incentives, etc.[18]. With these types of measures (which maintained the centralized distribution of supplies, centrally fixed prices and centralized investment) the greater autonomy of the enterprises was fictitious. Limited decision-making on investment came up against difficulties in obtaining necessary materials. In the end, as Marczewski says (1975, p. 245), “the company is not entirely free to choose either its production or its inputs. Maximizing profits doesn't depend entirely on the enterprise. And mainly, the prices used to calculate returns don't represent the tensions between the relative shortages of the different factors and social necessities. It is possible then that to gain maximum profits doesn't mean that enterprises reveal all their «reserves» and produce the goods that respond exactly to social necessities."

The inability of the system to resolve the economic difficulties was pointed out in the XIII Congress of the BCP on April 1986, where Yivkov strongly criticized the administration of the economy. This was the antecedent of a new series of measures adopted on June 1987, whose purpose was to transform the mechanisms of

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[17] Although agriculture was the sector that benefited most, temporary restaurants were also authorized in the tourist areas of the Black Sea and taxi cooperatives were promoted in Sofia.
[18] See Crampton (1987).

administration of the system, this being known as *preustroistvo*, something close to Gorbachev's *perestroika*.

The fundamental principle was that every decision be made autonomously at the lowest possible level of the administrative structure. Only strategic decisions would be made by the Centre, the administration of operational matters and executive tasks being responsibility of the enterprises. In this way the enterprise was consolidated as the main micro-economic agent governed by the principles of accounting autonomy, self-management and self-finance, the associations now being the organs of general policy coordination.

Planning would direct the economy determined by macroeconomic objectives, relying on the transmission of indirect indicators to the enterprises, which should respect certain indicators for the use of the resources. Nevertheless, the practice of the state orders would stay for principle products, investment projects and for international obligations.

With regards to the financial environment, the financial independence of enterprises was emphasized, these being able to retain a larger percentage of profits. At the same time a restructuring of the bank system took place, separating the central bank and commercial banking through the creation of 8 sector commercial banks, with the participation of the economic organizations. These new banks could deny credits to the non-profitable enterprises as well as negotiate interest rates.

Finally, on January 1989 Ordinance nº56 appeared, introducing deeper transformations, such as non-imperative planning and the generalization of the use of economic instruments in economic policy, the recognition of several forms of property, including private, and proclaimed the freedom to set up companies. Nevertheless, the end of the communist rule on November 1989, multiparty elections in 1990 and the beginning of the transition toward a market economy interrupted this process.

4. The definitive crisis of the Bulgarian economy.

These successive reforms didn’t produce the institutional changes that were able to solve the contradictions of the planning system created in the 50s or get over the exhaustion of the initial economic expansion. The limits of the economic development translated into the definitive crisis in the 80s that preceded the fall of communist rule in November 1989.

The most characteristic feature of this crisis was a drastic reduction in national production growth in the 80s, with a decrease of the NMP in 1989 for the first time since 1945 and a slow down in industrial, agricultural and investment growth[19]. This slown down in growth is related to difficulties in the external sector: problems in the oil supply from USSR, fundamental for the Bulgarian industry; recession in USSR and Western economies since middle of the 70s; deterioration of exchange terms since 1973 resulting in of a rise in price of raw materials; and the problem of the foreign debt with the West that imposed limits on western technological imports reducing productivity and the supply of goods to the country.

This also negatively affected the already difficult situation in the energy sector, with several expansion projects unfinished (such as the enlargement of the nuclear power station of Kozloduy, which now posed serious security problems) already seriously affected by the droughts of 1984-85 that caused the beginning of the restrictions in the electric power supply. The problems of agriculture, also very vulnerable to climatic changes, and of the construction sector, with a high percentage of unfinished projects and with shortage of construction materials, such as cement, were translated into bottlenecks along the whole productive apparatus.

The industrial sector had developed since the 60s, the chemical industry being based on Soviet petroleum, and the electromechanical industry developing within the framework of the specialization of CMEA trade system, while textile and food industry lost their key roles, although the latter still had great importance. Industry, in progressive decline until its stagnation in 1989, suffered from a almost total dependence on foreign raw materials and energy, being very concentrated into a limited number of branches, was also endowed with obsolete machinery and low productivity and profitability.

Difficulties in agriculture affected economic growth negatively. This had to do with organizational problems within the enormous agrarian complex and with the running of the economic system. It was also affected by water shortages related to the faulty irrigation system and vulnerability to climate factors after a move toward a less diversified production philosophy related to producing for exports, and by the movement of young manpower toward the urban centres. These problems didn't affect, however, small private farms which improved production[20].

[19] See Jeffries (1993) and Tirapolski (1986).
[20] In 1989, they occupied 13% of arable land and represented 25% of the production of the sector.

The external sector continued being characterized by its strong integration in the CMEA, although an increase in exports toward underdeveloped countries took place. With regards to trade structure, exports came to be dominated by machinery (more than half), decreasing the relative importance of agricultural and food products, while imports continued being dominated by production goods. The worsening of the external conditions mentioned before was best reflected in the increase in foreign debt since the middle of the 70s. This was due to the resources invested in technology, financing coming from Western Europe, indicating the limits of the Bulgarian economy and its economic integration in the CMEA. After an initial increase in indebtedness at the end of the 70s, the debt went from 900$ million in 1984 (net debt) to 8.300$ in 1989 (Jeffries, 1993).

The inability to improve living conditions of the population showed in a chronic shortage of consumption goods, as much food as durable goods, in the scandalous backwardness of the service sector, in the problems of housing of scarcity and low quality, or in widespread poverty and the increasing number of the population with incomes under the minimum subsistence level (mainly pensioners, although also young and workers).

5. Conclusions.

The system of planning in Bulgaria showed all the fundamental characteristics of the Soviet pattern. The conditions imposed by the necessities of the post-war period as well as the assistance provided by the Soviet Union were decisive in its installation.

The process of economic development promoted by central planning became the limit for the continuation of the harmonious functioning of the system under the same conditions. Indeed, in a first stage of the industrialization, the system was useful to channel resources toward a few key sectors. But the modernization process meant a growing complexity in planning; when the formation of the hierarchy of priorities became very complicated then the contradictions of the centralized model of planning became evident.

The attempts at reform of the economic mechanism toward economic decentralization failed. All the reforms introduced may be described as conservative, keeping in mind that none of them supposed a real deviation from the centralized pattern. In any case, only certain administrative decentralization that improved central control through the simplification of the system and the broadening of the powers of the intermediate levels of the administrative structure took place. Indeed, in all the attempts at reform the monopoly of state property remained. The Centre determined the objectives and activity of enterprises. These remained subordinate to the execution of the imperative plan and subjected to the fulfilment of obligatory indicators. The system of supplies was determined centrally. Decisions on investment were centralized in most of cases. The financial sphere continued reflecting soft budgetary constraints. The central fixing of the prices and income distribution never were abandoned and the state monopoly on the foreign trade always remained.

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