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9 Years Currency Board Arrangement

Dimitar Chobanov

9 years have passed since the introduction of the currency board arrangement in the country, which is a good reason for an assessment of this period and the preceding one. Of course, it should be taken into account that the positive development is a result not only from the CBA but also from the rest of the reforms toward higher economic freedom. These are liberalization of internal and external trade, capital account liberalization, privatization and de-monopolization. Interactions between these factors have had a positive impact on the levels of income, production and employment in the country and have been creating more business opportunities for persons.

The purport of CBA introduction is to provide stability of money that is relative constancy of its purchasing power. Money is a measure of goods' and services' prices enabling people to compare them easier. Sound money reduces the uncertainty concerning the future dynamics of prices and makes easier decision taking about

consumption and investment thus helping for efficient resource allocation.

In contemporary situation, money supply is controlled almost entirely by the central bank in the country. It directly influences the monetary base as well as the multiplier to a large extent through the commercial bank regulations. However, the demand for money that is independent from the central bank is determined by the individual preferences. The central bank has to make frequent assessments and to conform its monetary policy to them as the misbalance between the demand for and the supply of money could have negative consequences for the economy.

More common is the case when the supply of money exceeds the demand resulting in inflation. Hence, money loses its value in terms of goods and services and does not fulfill its function as a yardstick. In practice, excessive money supply means that the central bank purposely or not shortens this yardstick. The effects on prices are not even. Changes in some of them are bigger thus altering the individual structure of consumption in terms of different quantities of goods and services bought and

cause a change in opportunities for certain societal groups on account of the other. Therefore the result from the inflation is income redistribution induced by the central bank policy.

The mean for stabilization the internal and external value of the Bulgarian lev was the currency board. Applying it reduced the ability of the Bulgarian National Bank to influence the money supply as it is carried out according to a certain rule. Banknotes' and coins' emission might be realized solely if it is covered by reserve currency i.e. only when there is a demand for central bank money. The exchange rate is strongly fixed to the euro, which is a stable global currency, and 100 per cent coverage of monetary base by assets denominated in reserve currency is necessary to be maintained.

The CBA poses a financial discipline by limiting the lender of last resort function for commercial banks and prohibiting central bank to grant credit for the government in any kind. Banking system should be healthy and labor market should be flexible in order to provide faster accommodation of the economy to shocks for the successful operation of that monetary regime.

The Bulgarian type belongs to the second generation or so-called quasi-currency boards. It contains some features typical for the traditional central bank like the minimum reserve requirement that is a genuine monetary policy tool. The presence of this tool logically led to its utilization aimed at reducing the growth rate of credits although the ambiguous effects.

What are the consequences of the currency board functioning? During the period between 1998 and 2005 the annual average rate of inflation has been 7.2% while it had been 210.1% between 1991 and 1997. The average inflation tax rate measuring the inflation tax on holding cash balances has been 6.7% since 1997 and it had been 57.7% in 1991-1997. Hence, the CBA, which actually imports monetary policy of the European Central Bank, has achieved its target of increasing Bulgarian lev's stability. It should be noted that the existing differential between rates of inflation is a result from the convergence of price and income levels in the country and the Euro zone.

The annual average real growth rate of gross domestic product (GDP) has also been significantly different before and after 1997.

During the first period it is -4.7% while after 1997 it is 4.5% meaning that the Bulgarian economy has succeeded to prevail the 1996-7 crisis. Apart from this, the income per capita is already higher than at the outset of the democratic changes in the country.

The positive development in terms of investment is also clear. The average growth rate before 1997 had been -8.8% and 18.5% thereafter leading to substantial rise in the share of investment measured by gross fixed capital formation to the GDP – from 11 per cent in 1997 to 23.8 per cent in 2005 which is a prerequisite for higher economic growth in the next years.

Foreign direct investment (FDI) has also increased in absolute and relative terms. Their average level before the introduction of the CBA had been USD 135.3 mill. or 1.7 per cent of GDP while it has been USD 1,469.2 mill. or 7.9 per cent of GDP afterwards. Capital account liberalization and market-oriented reforms improved business environment and increased confidence in Bulgarian economy thus attracting foreign investors. The slow down during the last year could be explained by the virtually stopped privatization. The Bulgarian National Bank, which is in charge for the balance of payments composition did not account any privatization receipts in 2005 by foreign residents while the non-privatization investment actually rose.

The imposed strict discipline contributed for the change in public finance. Chronic budget deficits typical for the period before the CBA introduction have been substituted for more prudent fiscal policies of usual surpluses. The budget balance had been on average -6.3% of GDP before 1997 and reached 0.6% of GDP since then. However, switching to the opposite extreme of too large surpluses like 3.2% of GDP in 2005 would not be considered as a positive development for the economy meaning that the government takes away more money from taxpayers than needed for financing its low efficient expenditures.

As a result of bettered fiscal policies the government debt to GDP ratio has considerably lowered. Before 1997, debt is 168% of GDP and 62% after then reaching 32% in 2005.

Of course, the selected indicators do not exhaust the effects of implemented reforms but they are sufficient to draw a good picture of the change in the country after 1997. The currency board has proven itself as one of the most successful reforms through fulfillment of its purpose and on

the ground of this its maintenance as a monetary regime until adoption of the euro as a legal tender lacks alternative. Hence, creation and adherence to the rules combined with limiting

the discretionary power of the government is an adequate tool for solving problems in the economy.

Table: Selected economic indicators

Indicator	1991-1997	1998-2005
Inflation (%)	210.1	7.2
Inflation Tax Rate (%)	57.7	6.7
Real GDP growth (%)	-4.7	4.5
Investment growth (%)	-8.8	18.5
Budget deficit (% of GDP)	-6.3	0.6
Government debt (% of GDP)	168	61.8
Foreign direct investment (USD mill.)	135.3	1469.2
Foreign direct investment (% of GDP)	1.7	7.9

Source: National Statistical Institute, Bulgarian National Bank, Ministry of Finance and author's calculations

Will We Overcome the Lawyers This Time?

Svetla Kostadinova

Discussions on VAT draft law are the time when certain “privileged groups” are to lose their preferences and who will keep theirs for once more.

VAT draft law foresees that legal services be excluded from the list of goods and service that are exempted from VAT. Lawyers’ reactions are not unexpected. Nevertheless, we are surprised to hear statements such as “we will sue the state

in front of international institutions because of the violated right of defense” (good approach from lawyers) and “we are ready for a strike” (unexplainable action from people who should rely strongly on words and arguments in their favor).

How is in Europe?

The table below shows the current state of affairs in the EU regarding VAT taxation. Out of all 25 member – states, only in two legal services are exempted from VAT and another three have reduced VAT rate in specially defined cases regarding legal profession.

Country	Standard VAT rate	VAT rate for legal service
Austria	20	20
Belgium	21	Exempted
Denmark	25	25
Germany	16	16
Greece	19	Exempted
Spain	16	16
France	19.6	19.6 и 5.5 (for legal aid)
Ireland	21	21
Italy	20	20
Luxemburg	15	12
Netherlands	19	19
Portugal	21	21 и 5 (for legal aid, labor law related services)
Finland	22	22
Sweden	25	25
UK	17.5	17.5
Czech Republic	19	19

Estonia	18	18
Cyprus	15	15
Latvia	18	18
Lithuania	18	18
Hungary	20	20
Malta	18	18
Poland	22	22
Slovenia	20	20
Slovak Republic	19	19

Note: Data is towards February 1st, 2006.

Why there should be no reduced VAT rate for legal services?

The reduced rate has several negative side effects. Often, introduction of reduced rate is justified by no-fiscal motives as in the case of legal services – the access to basic human right of defense. Some say that lower rate leads to lower prices, easier access to legal services for low-income people. Despite this, there are proofs that call in question whether reduced rate really have those effects taking into consideration the distortions they cause.

The arguments in favor of standard VAT rate and elimination of reduced rate for legal services are the following:

- Introduction of single standard rate will make taxation more equal and fare across all sectors of economy;

- At the moment, lawyers pay only income tax and monthly fee in the local bar association;
- Standard VAT rate will not have significant effect on people with lowest incomes since they have certain rights in the current Law on legal aid, such as (1) consultation for reaching an agreement before starting a trial or filing a lawsuit; (2) preparation of documents for filing a lawsuit; (3) procedural representation; and (4) representation in case of arrest. Additionally, VAT taxation will not affect lawyers with annual turnover up to 50 000 leva (VAT registration threshold). For comparison we can present the following data. According to National statistical institute, the average annual expenditures for a household for court and legal services are as follow:

	2001	2002	2003	2004	2005
Total annual expenditures for court and legal services (leva)	17 293	11 803	11 556	15 380	14 922
Number of households included in the survey	6 000	4 200	3 000	3 000	3 000
Average expenditures per household (leva)	2.88	2.81	3.85	5.13	4.97

Source: National statistical institute and authors' calculations

- Trade registration reform that is in progress will allow for citizens and companies to reduce their expenses for legal services.

What is should be done?

It is interesting to notice, that opponents of standard VAT rate use the same arguments to defend their thesis, as we will use now.

Reducing the VAT rate for all

The current 20% rate can and should be reduced. The first step is to make it 18% as recent

proposals, and later it is possible to reach the minimum required rate from EU – 15%. The accusations that the government did not managed to negotiate for preferential VAT rates for certain goods and services sounds cynical – whatever the reasons (ignorance and indifference, or just sound economic logic), we all should be grateful for that.

Reducing the VAT rate for all will:

1. Reduce the size of the informal economy;
2. Increase economic growth;

3. Reduce the overall tax burden on end consumers.

Abolishing of all exceptions and reduced rates (introducing of flat VAT rate)

Different rates violate the principle of neutrality and lead to efficiency losses because they distort the incentives for investments in certain sectors of economy.

Abolishing of reduced rates will make tax system simpler and will reduce the need of hiring lawyers, accountants and tax advisors. In other words, administration costs will be less.

On the other hand, this will reduce significantly the possibility of income misreporting by lawyers and those with biggest clients and highest turnover will “go out of dark”. They, in turn, will not be affected from standard VAT introduction since in almost all cases they will

have the opportunity to transfer the payment of the tax to their clients.

We should not forget that if reduced VAT rate is introduced now, later any other sector or profession will ask for preferential treatment, will put many efforts and funds into this, and will find some “friend of the people” to tell us how we can not go on like this any more.

It is interesting to know that EU is maintaining policy towards gradual cutting of reduced VAT rates and encourages using of one standard rate.

Finally, reduced rates for legal services mean lower prices not only for low-income people, but also for those consumers with higher than average incomes. Such “social policy” leads to additional expenditures for the budget that, by our estimations, are greater than the achieved social effect from reduced VAT rate.

Reflections on the Government Sector

Veliko Dimitrov

The very first insurance contract in Bulgaria against media risk was signed earlier this month. It is one-year-term bill and the policyholder is insured against several types of risk as follows: against calumny or insult, misleading, breaking secrecy and violating intellectual property rights, including copyrights, trade marks and rights on patents.

The arise of a new insurance product on the market is definitely a positive development, which proves an increasing confidence in the market as a natural regulator of relations among individuals and companies. On the other hand, the policy is a peculiar guarantee for freedom of speech, censorship and independent journalism. This product can be found in each developed democracy nowadays.

Amazing is the fact that the first policy of that kind in Bulgaria was bought not just by a media, but by the Bulgarian Telegraph Agency (BTA), which is a state owned company and its activities are still being regulated by a Statute, adopted by the National Assembly more than ten

years ago¹. This document could be generally divided into two parts indicating what BTA is not allowed – to become a source of calumny and misinformation, to inflame political, ethnical and religious conflicts – and what it is obliged to do – upon request to disseminate official news, to seek after objective and complete information etc. Besides this, the Statute and the director general of the company are always dependent on the parliamentary majority and its structure and activities are monitored and subject to approval by the respective parliamentary commission.

One needs to know that even if no official document explicitly states what is allowed and what is not, each media, including BTA, strictly holds up to the above mentioned limits under competition pressure and cautiousness not to be sued. On the other hand, there is no way to be right that a company, which is apparently market oriented, relies not upon market decisions, but political.

The following case is emerging: a state owned company seeks to apply market decisions when it deems it is necessary; besides purposive budget subsidies it generates own income through advertisements and selling information products; it successfully initiates innovation in other branches of the economy. On the other

¹ Promulgation in State Gazette, issue 56, 1994

hand it is still state property, its activities are bound to a special statute and the direction of its development could change by every single waver of the political configuration in the parliament.

The presence of a judiciary and a functioning market on one site, and a company, which aims to be part of it on the other, are sound arguments for letting BTA be private. Its activities should also not be extra regulated, which will provide the company with the equal opportunity of all other market agents for natural development. If there was ever a need of adoption of a special statute for BTA due to political and economic instability, it has turned into an unnecessary burden today.

Administrative regulation of pure economic activities through legal acts is an old-fashioned and inefficient approach, which is widely used in non-democratic and non-market oriented countries. For a democratic market economy it is rather a disease.

The best solution for BTA: The media could easily turn into a private company selling shares to its employees and to outer investors as well. Potential results:

- Advancement opportunities equal to these, which have all other media companies;

- Higher motivation for the employees;
- Increased sector competition;
- Privatization revenues for the state budget;
- Tax and social security revenues

The state owned companies in Bulgaria, which are to be privatized, are still great in number. We suggest a list containing just those companies, whose names begin with the letter "B". We also believe that this list is not completely through:

- Bulgarian State Railways (BSR)
- Bulgartabac
- Bulgarian Sea Fleet (BSF)
- Bulgarian River Shipping (BRS)
- Bulgaria air
- Bulgargaz
- Bulgarian Posts
- Bulgarian National Television (BNT)
- Bulgarian National Radio (BNR)
- Bulgarian Academy of Sciences (BAS)

Can a Pension Reform Be Conducted by Differentiating of The Tax Rates?

Adriana Mladenova

Following the discussion for the new taxes next year, a debate arose in Bulgaria for the tax treatment of the money deposited in the voluntary pension funds. According to the current legislative system in Bulgaria the payments in the voluntary pension security system are deducted from the taxable individual income, but if money are drawn preliminarily from personal accounts before the terms for receiving of pension annuity are met, earnings are liable to 12% income tax rate.

The idea for the tax exemption of money, once deposited in the private pension system, met the greatest opposition from the private pension funds. According to the Association of Complementary Voluntary Pension Insurance,

this will lead to drawing out of around 100 million levs (50 million Euro) from the funds and will be a hardship for the stability of the system /the balance value of the assets of the voluntary pensions funds for the first three months of 2006 is 435 million levs (222.4 million Euro)/. Consent was reached with the minister of finance Mr. Oresharski that the tax would not be abolished.

However, the fear that speculations will be stimulated and people would rather use the pension funds as a tax shield in order to lessen the effective tax rates that are imposed on them is fully justified. People are rational and the taxation system, which is compulsory, coercive and the rates are comparatively high, is a big enough stimulus for utilization of all legal means for tax evasion.

The annual average yield accomplished by the pensions funds for the last two years is 8.4%, which is substantially above the average interest

rates on deposits for the period (3.2%), which makes the pension funds an alternative to the banking system although it is not within their scope of activities and general purpose. The higher yield rate should be a premium for the lower liquidity of the savings.

The reasons given by the Ministry of Finance for justification of the proposal are as follows: stimulation of the development of the voluntary pension insurance from one hand and from another – easier administration of the tax system. According to representatives of the government administration defining the taxable part of the income from premature drawing of the money from the personal accounts in the pension funds is difficult to accomplish in practice. However, both of these reasons lack any sound grounds.

To the pension funds it is of utmost importance the time horizon of the savings as well as the inflows and outflows from the personal accounts to be able to be forecasted with a high probability so that the portfolio of assets to be managed most efficiently. One of the characteristics of the pension system model is that the time horizon of the savings is comparatively long which allows for investments in long-term projects or instruments and receiving capital gains in return from the accumulation of more economic value.

Although, most probably, the tax will not be abolished, the question for the dependence of whole business sectors on government decisions is still on the agenda. In the particular case, the tax has not a fiscal role rather than a regulatory one. That is so because the pension funds are restricted in their policy for the fees they collect. The fee for preliminary drawing of money from the personal accounts before the pension age is reached is limited to most 20 levs (10.22 Euro). According to term 259 of the Social Security Code the pension funds cannot collect other taxes and fees rather than the ones indicated in this chapter [chapter 28 from Social Security Code “Taxes and Fees”].

Conducting tax policy through differentiated tax rates is not only a hindrance for the tax collecting process and leads to higher costs for tax system administration but also changes the behavior of people and the environment in which they operate. If the individual income tax system is simplified, this would reduce “time” tax for taxpayers, which is the opportunity cost for people to calculate and pay taxes by taking into account all restrictions and possibilities for

minimization of tax payments. If the tax rate is flat, without differentiated rates and complicated procedures for alleviation, preferences, stimuli and so on, the tax base will be wider which allows for reduction of the tax rates for all and the distortion of the market reality will be reduced to minimum size.

In order to stimulate savings in the voluntary pension funds, the government should withdraw from its activity to promise pensions through the PAYG system, which is characterized by inherent instability and inadequacy to the demographic changes. The dependency ratio in Bulgaria, measured as a percentage of the population in a retiree age (the population measured as the number of people between 15 and 64 according to the methodology by *Eurostat*) is 24.9% for 2005, and in 2050 this indicator will increase to 60.9% according to the forecast by *Eurostat*. At the same time the ratio of the number of retirees to the overall number of the occupied people in the private and non-subsidized government sector is an indicator that brings more economic sense and if we take it into account, even a more alarming situation will be observed.

This week was undertaken also another step concerning the pension system in the country. A special law project was passed by the parliament for the creation and management of a special *Silver Fund*, which will accumulate part of the financial resources from the privatization and the fiscal reserve of the country. The Silver Fund will assist the government pension system. Before we can evaluate the creation of this fund, it is important to take into account its purpose and what it will be used for. In this case, we do not talk about reformation in the pension system but about delay of its bankruptcy. In several years the ratio of occupied to retired will be greater than 1:1 (for the retired) and at the same time the promises for higher pensions and reducing of the social security taxes means that the deficit of the National Social Institute will widen and the implicit government debt will be higher which will challenge the stability of the whole system.

The feature in common between the appeals for higher pensions and conducting of “more social” policy and the creation of a Silver Fund is the promise, which a great part of the people recognize that the government will take care of them when they are old – simply because it is “obligated to do it”. These signals hinder the development of the capital pension system and

all other forms of private voluntary insurance. In order the pension reform to be conducted, a political and social support should be achieved and a realized conviction by people for its necessity. Differentiating the tax rates and

making the tax system more complicated do not help in changing the models of thinking, just the contrary – it hinders the rational utilization of the resources in the economy.

Flashes of Spontaneous Order (Cases of Self-organization Reported in the Bulgarian Press)²

Krassen Stanchev

Currently in Bulgaria, there is return in the public mind and political debates to the idea of big government that replaces individual responsibility. With a little help from friends, namely, Hristo Hristov – a journalist from Dnevnik (www.dnevnik.bg)³ and Vesselin Komarski, a computer professional, I managed to collect some stories that basically prove that the Bulgaria government is malfunctioning and people tend to take responsibility in their own hands.

Street Lights and Civic Disobedience⁴

In the capital city of Sofia until 2003 the streets and the traffic lights were managed by the City Council's on Traffic Security and Organization Department while the street signage was coordinated between the Department and the Sofia city branch of the Ministry of Interior's Control over the Automotive Transport, or CAT, i.e. the traffic police.

In 2002 – 2003, fifteen Sofioters were killed on the streets by drivers who did not observe street lights and other signs like speed limits, "school", "pedestrian crossing" and the like. Among the victims there was an entire family of three that was crossing on "Green" in a residential neighborhood, two students of the American Collage of Sofia, pupils and senior age people.

² This publication is a part of a more extensive paper on spontaneity and economic security being prepared for Atlas Economic Research Foundation.

³ This Internet site has an English version, which is very informative for those interested in the Bulgarian affairs.

⁴ Source: Sofia daily newspapers, in particular "Dnevnik", January 15, 2004

The drivers were prosecuted and most often received harsh terms in jail. But the public was completely dissatisfied by the way the traffic and signage is managed.

People from the neighborhoods and schools organized acts of civic disobedience: blocked the traffic on the key cross roads, demanded change in the speed limits, construction of "sleeping policemen", installation of street lights, etc. Particularly outraged were the residents and the neighborhood of the family killed and the American Collage⁵ students. In 2001, a college student was severely injured when crossing on the "zebra" in front of the school. Students, teachers and parents send a petition to CAT and the City Council demanding an installation of a street light. The City Council promised but did not take any action until another student was killed on the same place in 2003.

Besides blocking the traffic, students and the public usually threaten managing the traffic themselves, not paying taxes and other acts of disobedience. Normally, such protests attract the media and message spreads fast.

There were two significant impacts of those protests. First, the City Council in 2004, concession the traffic management to a private company, which acts promptly restoring damaged lights and signs, invites CAT to hot spots, and raises additional investment from near operating private companies, mostly gasoline retailers. Second, since 2004 the number of such outrageous – i.e. pedestrians dieing when obeying traffic rules - accidents declined but

⁵ The collage is private institution, with a reputation of being the best in the town and with 90 years of history; it was confiscated in the late 1940's, when the premises were granted to then just organized Communist militia academy; immediately after the political changes of 1989 the American Collage was re-established, reclaimed it properties and reopened its doors for students in early 1990's. The public image of the Collage gave an additional strength to students' demands.

there is little hard core evidence that this happened just because of the rule change. At the same time it is certain that because of the protesters and the media attention gasoline retailers and other companies financed campaigns to promote proper driving ethics.

Retired Teacher Uses Explosives⁶

A 70-year-old former physics teacher, Nikola Pohlupkov, lives in Sofia and spends half of his time on the Danube River, at the town of Oriahovo, 200 kilometers North from Sofia.

Suffering from theft and completely disappointed by the incapacity of the local police to protect properties of the citizenry, he decided in 2000 to self protect his Oriahovo home and the plot of land around it. In order to do so, he invented, made and installed explosive devices and mined doors, the fence and the house.

On 25 April 2001, Ms. Maria Mitzova, a 28-year old Gypsy woman – a fact that was specifically mentioned by all press reports - who came to check out what was possible to be taken from Pohlupkov's house, was unfortunate: as she was opening the door her left wrist was completely blown away.

Mr. Pohlupkov was found by the police investigators in his Sofia apartment and was brought to the Oriahovo scene of attempted theft where he showed them six more self-made mines installed in different corners of the yard and the house.

The court found the former teacher guilty for two criminal offences: of causing a heavy corporal injury to Maria Mitzova and of possessing weapons, the total suspended term in jail was determined at fourteen months and Mr. Pohlupkov was requested to pay Ms. Mitzova BGN 2,000⁷ compensation. She was acquitted; the court decided she did not rob the house. The attempt to rob a house was interpreted as no life treating attack, so, under the circumstances; the owner did not have the right of armed self-defense. At the end of the day, the teacher had to

sell it to cover the lawyers' fees and the compensation.⁸

“Vigilantes” Initiate a Legislative Reform to Provide for Better Organization of Self Defense⁹

They are equipped with a 1978 Soviet made sort of a car *Moskvitch* and a 24-year old *Opel*. Their task is to guard houses, yards and fields of the village of Sratsimir near the ancient city of Silistra on the river Danube. The group operates already two months. Four men of age between 35 and 49 with the two cars every night set ambushes in the four edges of the village lands. They do not wear arms but one of them has experience in law enforcement bodies: the 49-year old Mincho Iliev is a former police officer, retired and currently unemployed; and one served a guard on a water reservoir. The other two are local farmers. The group is responsible for patrolling the streets and the two roads into the village, and for watching the paths that lead into it. They inform fellow villagers if they see doors or windows open and expect an SMS-message if something suspicious takes place.

The initiative to organize the self-defense unit came from a pensioner, Mrs. Ivanka Valeva. She and her husband move to the village because of raising cost of living the bigger near by town. Few months ago their well-protected yard was visited by four uninvited night strangers, who left frightened by her husband. But it was clear that they have prepared for taking away Valevs' two cows and the horse.

On the next morning she, with the help of the mayor called a meeting of the villagers, held in few days. The meeting was well organized. First, they listen a report from the state police officer (who covers five villages) on the crime situation, the outlined the plan, fixed the personnel

⁸ This is not an isolated case of attempts to utilize own skills for property protection. On July 12, 2003 the *Standard* daily, in an article by Kostadin Arshinkov titled “Former Electrician Installs in His Garden Deadly Snares Like in a Hollywood Movey, reported the “technical genius”, Christo Naydenov had installed so many traps using knives, nails, axes, sharpen tin and broken glass in his yard and house near Plovdiv (the second largest city, in South Central Bulgaria) that it is virtually impenetrable but he regrets that he did not have enough money to use his skills of an electrician. (See in Bulgarian [here](#).)

⁹ Source: 24 Hours Daily, 20 May 2006, and an interview with local correspondent, Mr. Yordan Georgiev.

⁶ Source: media coverage of the court case and interview with Ms. Rayna Tosheva, a local correspondent of daily *Dnevnik* in Vratza, a district center city for the town of Oriahovo.

⁷ About six times the average monthly salary or nine times the average pension (the exchange rate to the US Dollar at the end of June 2005 is 1.55; the exchange rate to the Euro is 1.95).

selection criteria (option to have unemployed for the job was ruled out), and, eventually, they decided on a monthly tax of BGN 2 to finance the protection effort and elected a committee of volunteers to handle the organization. Part of the strategy is a wide publicity of the effort. The guards are on duty from about mid-night to 5 a.m., and the daily rate is BGN 4-6.

The theft-temptation situation of Sratsimir, as explained by the mayor, is the following: there 300 houses in the village (in 30 of them none lives permanently, owners live in big cities and come on vacation), 50 cows, few herds of sheep and coats. Theft intensity is irregular; animals are at risk mostly around national and religious holidays, when the demand is high, guarding field produce is, obviously, seasonal.

At the end of May 2006, the villagers held a special meeting to evaluate the impact of the initiative. They decided it was effective, kept the level of contribution unchanged and discussed improvements.

They decided the overall legal framework of the operation like theirs needs amendments and perfection. There are two issues to be addressed: wearing arms and cooperation with state law and order bodies. A volunteer committee member, a former officer of Silistra District Police Department has sent a letter to the one of the members of the parliament from the region, who openly committed to work on the issue.¹⁰

Are These Cases Typical?

The answer is “yes”

The selected cases do not go into extremes. The three cases represent examples of everyday problematic situations, in which the planned and politically controlled order and enforcing institutions fail to deliver expected outcome or at least appear to have being failing.

They demonstrate how the public law and order system works, is being reformed and how the

deficiencies of the system are being compensated for.

In all these cases there is private, individual and civic initiative that aims to amend and/or substitute the inefficient segment with one that is working. It seems that these amendments and substitutes are doomed to be more effective, but often they enter a collision with the official framework, like in the case with the retired school teacher, that backfires and “punishes” the initiator.

At a closer look, these are not isolated cases – these are examples of processes. And such processes were and still are common to all ex-Communist countries; they deserved but rarely receive an appropriate and comprehensive analytical attention.

The Sratsimir group is by no means unique. Press reports for the last fifteen years give an impression that there are such organized protectors of rural properties virtually all 280 local communities of Bulgaria.

The teacher making explosives and mining his own yard is perhaps only the most famous example of a desperate individual looking for cost-effective (in this case self made) ways to keep property violators off his estate. There are cases of similar behavior, still pending in the courts: the “weapons” used were not explicitly prohibited but the thieves have killed themselves, putting in motion various automatic devices when they broke into the premises they intended to rob.

The treats of civic disobedience in Sofia are just a simple example of a relatively constant variable of political attitudes in Bulgaria and ex-Communist countries. Many ill-outlined reforms and poorly performed duties of public institutions were either amended or totally changed as a response to public disagreements and/or expected and expected discontent. . I tell the story to make a point that even ordinary rules sometimes require action to get established and enforced.

The three cases indicate an existence of a strong under-current in the reforms that is reflected in the everyday accounts of the events in the country but rarely “experts” bother to research and analyze them. Meanwhile, it is obvious that these spontaneous constellations shape individuals behaviors.

¹⁰ The author has read the draft concept to amend the framework; it does not reflect the concerns of the Sratsimir “vigilantes” and could complicate future spontaneous organization; more specifically, the member of parliament intends not to tackle at all the issue of the use of arms to protect private property and is focused on fixing by law a structure, the management, etc. of groups like this one.

Common sense and efficiency

1. All these cases deal with issues of security in a normal, visible to everyone dimension of the human life and property.
2. There is no complicated collective action in them and they represent a reaction to a situation, when some acceptability threshold has been challenged. But often these reactions would require a concerted effort to bring conformity between formal official rules of the game and the informal rules and habits that come into being by trial and error.
3. There is an element of spontaneity in each of the cases, and in every case there is issue dealing with a fundamental right, the right of life in the first case, and property right in the other two cases.
4. In the first case, it is obvious that it highlights an inefficiency of the state system that manages city traffic, some sort of neglect of duty on behalf of the city police and government that is typical for many constellations in the transition. But it also shows how system is being perfected by a public request, expressed via treats of civic disobedience and street action.
5. The second case questions the validity of the conventional regulation on the use of weapons in the circumstances related to the protection of ones properties.
6. The third case demonstrates an attempted efficiency of a collective action and how it proceeds in a democratic manner, from the bottom up and it is likely to test how the official system would be able to digest the informal test and its outbreak to the level of public law making.

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