

CURES Report**MAFIA CAPITALISM IN POSTCOMMUNIST BULGARIA****(PART II)****FREE-MARKET REFORMS, DEMOCRATIZATION, AND THE MAFIA****Dimiter Ialnazov**

How are free-market reforms and political democratization related to the rapid spread of crime and corruption in postcommunist Bulgaria? Having in mind two of the most important legacies of state socialism — first, blurred boundaries between the economic and political spheres, and second, rule-abiding behavior based on the fear of strict punishment by the authoritarian party-state — characteristics of the postcommunist transition such as using one's position in the government for personal enrichment and failure to establish the rule of law were inevitable to a certain extent. Goldman is right in pointing out that the origins of Russian mafia should be sought in Brezhnev's era, that is long before the coming of Gorbachev to power, and that "cheating-the-state" attitudes were typical not only of the Soviet period, but also of the Russian society in the nineteenth century and earlier (Goldman, 1996, p. 40).

The same points could be made for Bulgaria too. Although for different reasons (almost five centuries of Ottoman Turkish occupation), Bulgaria like Russia started its capitalist development later than western and central European

countries. Another similarity with Russia is that the Bulgarian state also tried to push ahead with a rapid industrialization in the end of the nineteenth and the beginning of the twentieth centuries by taxing peasants heavily. Peasants cheated the state to reduce their tax burden, while politicians and government officials used their positions for personal enrichment. The forty-five years of state socialism continued the tradition of cheating the state and power abuse. An important break with the past, however, was the decline of religion, local community and traditional values. Thus, after the start of free-market reforms in February 1991 the collapse of morality has greatly contributed to the evolution of social order in Bulgaria towards a mafia type of capitalism.

At the same time, I believe that path-dependence does not explain fully the rise of mafia in the postcommunist era. In an earlier paper I have given a detailed account of the "bipolar political structure" in Bulgaria in 1989 - 97 which, in my mind, is partly to blame for the proliferation of crime and corruption (see Ialnazov, 1997, pp. 3 - 12). Unlike the Russian mafia, Bulgarian criminal groups gained strength mainly due to a

political system in which much of the executive power lay with the national parliament while both the president and the government were relatively weak and ineffective. The national parliament itself was unable to take important decisions because of intense confrontation between the two most powerful political parties — the Bulgarian Socialist Party (BSP, or the former communist party) and the Union of Democratic Forces (UDF, or the anticommunist coalition).

In support of this argument, it could be said that the most effective Bulgarian governments after the fall of communism were the cabinet of D. Popov (January–October 1991) and the two caretaker cabinets of R. Indjova (October–December 1994) and S. Sofijanski (February–April 1997). These cabinets undertook urgently needed reform measures at times when the executive branch of government was relatively independent from the national assembly. At times when either BSP or UDF had a majority in the parliament and formed one-party cabinets pressing structural reforms were postponed, giving large opportunities for illegal wealth accumulation. The best illustration of this is probably the delay of large-scale privatization which encouraged siphoning off assets and income of state-owned enterprises by related private firms.

Furthermore, I will modify Goldman's argument about barriers to private business entry as the source of arbitrage and an opportunity for amassing wealth in the former USSR between 1987 and 1991. In Bulgaria, opening up a private business became generally free in January 1989 when the so-called "Decree No 56" of one the last

communist governments took effect. There were no special provisions limiting the private sector to any particular population segment, but in fact only the "nomenklatura" had the necessary resources to take business opportunities and convert its positional capital into an economic one.

Therefore, there were informal barriers to private business entry, and the actual stay in power of the former communist party until October 1991—almost two years after the fall of the communist regime—created a great deal of business chances for related private firms. By that time companies set up by the former "nomenklatura" had gained enough strength to be able to buy political support either from BSP or UDF.

Another factor that helps explain the power of Bulgarian mafia is the neoliberal model of economic reforms imposed by the IMF and other participants in the "Washington consensus". The notion that to achieve sustained economic growth, everything a country needs to do is liberalize prices, foreign trade and foreign currency exchange, keep government budget in balance, privatize state-owned enterprises, and maintain a sound currency had many adverse consequences in Bulgaria. The most important of these was the withdrawal of the state from exercising its economic powers. The power vacuum left was filled immediately by those who actually controlled state assets (managers of the state-owned enterprises), by those who had amassed wealth through the use of communist party secret funds, better information, personal connections, etc. (the "nomenklatura" capital), and by those who had the means of violence in their hands (gangsters,

“force groups”). State monopoly was just replaced by a few private monopolies with criminal connections who usurped the lion’s share of economic benefits produced by the postcommunist transition.

In addition, mafia could gain control of the economy because macroeconomic and political instability hindered foreign investment in Bulgaria. Between 1990 and 1997 the country received less than US\$ 1 bln. of foreign investment which is 12 - 14 times less than the amount that entered the Czech Republic or Hungary. Further-more, the desire to show Bulgaria’s progress in human rights protection to the United States and western European governments led to a big amnesty in 1990 which was not limited just to those imprisoned for political reasons. Many criminals went out of prison to find out that there were favorable conditions for getting rich through crime.

Finally, under the conditions of soaring inflation and dwindling real incomes of government employees, Bulgaria’s criminal legislation was not prepared to cope with the rapid spread of crime. There were cases in which the arrested criminals had to pay fines or bail that were equal to what they usually spent in one night at a casino and much exceeded the monthly wages of police officers, investigators, and prosecutors. Illegally acquired wealth enabled gangsters and “force groups” to hire some of the best people in the government — former policemen, prosecutors, lawyers, etc. — and to bribe the rest. It was not unusual that after a criminal was arrested, information leaked out from the police office,

allowing other members of the gang to make a nice alibi for him, threaten witnesses not to testify against him and so on. It was estimated that in 1994 the alleged criminals were indicted in just less than 10% and sentenced in less than 1 % of all cases (Pisarov, 1997, Vol.I, p. 121).

Car theft and non-collateralized lending to related private firms are just a tiny part of all cases in which members of the national parliament have shown a suspicious delay in passing urgently needed legislation, and government officials have proved unable to enforce legal provisions and regulations. The inability of the state to work out and enforce its decisions is symbolic of the collapse of government institutions in postcommunist Bulgaria which I believe is the main reason behind the country’s evolution towards mafia capitalism.

Mafia domination of the Bulgarian economy in 1989 - 97 is a phenomenon that deserves much more detailed investigation as it could provide valuable insights in the variety of types of capitalism taking shape in the central and eastern parts of Europe. For reasons of space, I have limited the analysis here to a very short account of events and processes to which the rapid spread of crime and corruption can be attributed. I consider the mixing of money and power to a certain extent inevitable in postcommunist societies, but I am not convinced that the present strength of organized crime in Bulgaria, Russia, Ukraine and other CIS countries can be fully explained by barriers to private business entry, the existence of rich natural resources, and historical traditions.

Above I have argued that the “bipolar political structure” and the taking over of executive power by the politically divided national parliament in Bulgaria have created a situation in which the passage of vital laws and the implementation of radical reform measures were delayed. As a result, the weak executive branch of the government became unable to enforce rules and regulations, and powerful private groups could amass enormous wealth by illegal means. The fundamental weaknesses of an IMF-centered model of economic reforms, macroeconomic and political instability frightening away foreign investors and making underpaid government employees prone to corruption, and the inadequacy of Bulgarian anticrime legislation were other factors that contributed to the rise of mafia capitalism.

What awaits us in the future? The UDF cabinet that took office in April 1997 has made the fight with organized crime one of its highest priorities. It has launched the so-called “Mosquito operation”: a crackdown on those “new rich” who cannot prove the origin of their expensive foreign cars, luxury houses and large villas. An antimafia parliamentary commission has started work with the promise to make the names of all “loan millionaires” known to the public. Eligibility requirements for people who apply for bank management jobs have been introduced. The national parliament has passed a modern anticrime legislation which is supposed to improve the coordination among police officers, investigators, prosecutors, and judges, thus raising the percentage of indicted and sentenced criminals.

Still it remains to be seen whether “mosquitoes”

can bite not only the minnows, but also the big criminals and “loan millionaires”. A scenario that seems likely is the one in which the government will reach some kind of informal agreement with the big “economic” and “force groups” to recognize their wealth as legal in return for law-abiding, in particular tax-paying, behavior and for the promise to cut their links with gangsters. Ordinary Bulgarians will probably have to make sure that they are not excluded from the alliance between a stronger, authoritarian-type of government and the big private business.

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