

CURES Report

MAFIA CAPITALISM IN POSTCOMMUNIST BULGARIA (PART I)

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It has become common to read in the press and academic journals about Russian mafia and the robber–baron capitalism that has taken shape in Russia over the past 7-8 years. A recent example is the scandal surrounding the alleged involvement of Russia’s vice prime–minister, Anatoly Chubais, in a privatization deal favoring Vladimir Potanin, the head of Oneximbank and one of the seven bankers considered to be the most powerful among Russia’s new business elites. Both journalists and academics agree that the country’s economy is dominated, at the top, by a few business tycoons well–connected to the government and, in the provinces, by smaller financial empires dependent on criminal groups and local government officials.

Still, there is one point on which consensus has not been attained so far. Many commentators argue that all nations starting their way toward capitalism have to pass through a certain stage – in Marxian terms, the stage of “primitive accumulation of capital” – during which there is an outbreak of crime and corruption. By pointing, for

instance, to similar events which took place in the United States in the nineteenth century, they assert that the rapid rise of robber–baron capitalism in Russia was inevitable.



This argument, however, does not pass the test of reality as Central European (Poland, Hungary, the Czech Republic, and Slovakia) and East Asian (China, Vietnam) former socialist countries, although they are also not immune to crimes and corruption, have managed to avoid the economic domination of mafia groups typical for today’s Russia. Marshall I. Goldman, Associate Director of the Russian Research Center at Harvard University, has suggested that the unusually large scale of crime and corruption in Russia can be partly explained by the way economic reforms started. Unlike Central European countries, Russia began its reforms in 1987 by imposing barriers to entry, i.e. initially only a few people were allowed to open up a private busi-

ness. By the time barriers to entry were dismantled in 1992, those people had gained strength enabling them to establish control over the most profitable businesses (see Goldman, 1996, pp. 41-42).

Another explanation of the ascent of mafia capitalism in Russia is based on the fact that its natural resource endowment is much richer than that of any Central European country. It is known from economic theory that natural resources imply rents, and that if in a certain society there are a lot of rents, then rent-seeking activities may prevail over profit-seeking ones. To put it simply, since the size of natural resources (oil, gas, metal ores, etc.) which could be stolen in Russia was much greater than in other countries, the incentives to win control of these resources by theft, cheating, gaining insider access to government, and even resorting to violence were much greater too (see Goldman, 1997, p. 39 and p. 44).

Although the above explanations of the strength of Russian mafia seem rather convincing they have a common weak point. They cannot give an answer to the question why mafia capitalism, similar to the one in Russia, developed in Bulgaria – a country that carried out free-market reforms almost identical to those in Central Europe, and that is very poor in natural resources. There must be other factors to which similarities or differences in the types of capitalism in Eastern Europe can be attributed. In what follows below I will give the reader an opportunity to find out

more about this by describing in brief what happened in postcommunist Bulgaria.

THE RISE OF BULGARIAN MAFIA

In an earlier paper (see Ialnazov, 1997, pp. 5-14) I have characterized the Bulgarian post-communist transition as “illegal usurpation of benefits by few and socialization of losses”. This particularity can help explain why, unlike the Central European countries which after a brief period of falling output and high inflation have showed a remarkable recovery in macroeconomic terms, Bulgaria experienced a prolonged economic depression between 1989 and 1997. At the end of 1996 the country's GDP was 22.6% lower than the 1990 level (NSI report, 1997, p. 7) and is expected to exhibit a further fall of about 7-8% in 1997. Industrial production plunged even deeper: in 1996 it was 55.3% of the 1989 level. Inflation forecast for 1997 is 620%, which is twice as much as the average rate of consumer price increases in 1996.

Unfavorable macroeconomic trends have been accompanied by an impoverishment of the majority of Bulgarians, widening income disparities and an increasing sense of insecurity. In 1996 the average monthly real income per capita was 34.4% of the 1990 level (NSI report, p. 95). With the average monthly pension in December 1997 (52,000 lev, or approximately 4,000yen) retired people could buy just about 30 loaves of bread, 30 cartons of milk and 5 kg of cheese. Almost the

same was the purchasing power of unemployed whose number, according to official estimates, is about 600 thousand, that is 16% of the labor force. A recent survey found that about 75% of the Bulgarian people had difficulties in meeting their daily needs, and that more than 80% feared becoming a victim of violence, namely robbery on the street or at home.

At the same time, there are a few people who do not fit into the gloomy picture described above. In resemblance with Russia's "new rich", they drive foreign luxury cars, wear expensive suits, talk busily on cellular phones, live in newly-built mansions and huge villas in the outskirts of Sofia or big provincial cities, and are usually surrounded by bodyguards. These people belong to the top management of Bulgaria's so-called "economic groups" – big private company groups that control a large part of the foreign trade, financial, tourist, newspaper, and other profitable businesses. They are believed to have amassed their wealth, for instance, through the use of secret funds of the former communist party and other types of "nomenklatura capital" (information, connections, etc.), as well as through close connections to politicians and government officials after the fall of the communist regime.

There are also those who are called "bortsi", or "nutri" by the Bulgarian people. If translated from Bulgarian, the former means "wrestlers or fighters", while the latter is the slang word for "face" and has the hidden meaning of "big fat and

ugly face". Those people are gangsters (thieves, racketeers, murderers, etc.) who usually work for the so-called "force groups" and underground bosses presumably connected to the leaders of the "economic groups". "Force groups" stands for private security and insurance companies that serve as a cover for a number of illegal activities such as theft, smuggling, prostitution, drug trade, money extortion, etc.

Bulgaria's transition to a market economy went hand in hand with an outbreak of crime. According to the Ministry of Home Affairs, in 1996 Bulgaria had one of the highest crime rates among all European countries: 1701 crimes per 100,000 people (Pisarov, 1997, Vol. I, p.8). Only during the first eight months of 1997 more than 160,000 crimes have been committed. Turf wars among gangsters often end up in gunfight which can be extremely dangerous to ordinary citizens.

A classical example of getting rich through crime in postcommunist Bulgaria is car theft. German-, Italian- and US-made cars such as Mercedes, Volkswagen, BMW, Audi, Opel, Fiat, and Ford are stolen in Bulgaria, or in some western European country, and then smuggled into Bulgaria with forged documents. After changing the identification numbers and redyeing, the stolen cars are either sold in Bulgaria, or smuggled into Russia, Ukraine, former Yugoslavia, and Middle Eastern countries. It is estimated that only the car theft business brings the Bulgarian

mafia a net profit of about US \$ 500 mln. per year, which is roughly equal to 5 % of the country's GDP (Pisarov, 1997, Vol. I, p. 78).

Needless to say, the car theft business has prospered due to large-scale corruption among customs and local police officers, and prosecutors. Customs officers, for instance, receive bribes not only for each car smuggled into or out of Bulgaria, but also for disclosing to gangsters personal information about Bulgarians or foreigners entering the country in western-made cars. The next morning some of these people find out that their cars have been stolen. They have a good chance to get their cars back if they turn for help not to the police, but to either "VIS-2" or "SIC" – the two most powerful "force groups". In addition, Bulgarians driving western cars or even Russian-made "Lada"s have to insure them at one of the "force groups", otherwise they are always exposed to the risk of their cars being stolen by the car mafia.

Aside from car theft, there are many other ways of amassing wealth by illegal means: asset and income transfers from state-owned enterprises or former collective farms to related private farms ("hidden" privatization), fraud, embezzlement, smuggling of alcohol, cigarettes, fuels, drugs and guns, prostitution, gambling, robbery, speculation, exports without a license, selling goods without a license, invoices and quality certificates, production of CDs and recorded videotapes without a permission, evading payment of income

taxes, excises, VAT and import tariffs, and so on.

The above black-market activities are common for all postcommunist economies, but their large scale in Bulgaria is probably comparable only to that of Russia, Ukraine and other CIS countries. The annual turnover of the black economy in Bulgaria has been officially estimated at US \$ 4–5 bln., or between 40 and 50% of GDP. The real figure is assumed to be at least twice bigger than that. In addition, some recent calculations show that 90% of the profit in Bulgaria is generated in the black economy, and that the government loses annually from the evasion of customs duties and taxes approximately US\$ 1 bln. – equal to the amount Bulgaria is due to pay annually on its huge foreign debt until 2000 (Pisarov, Vol. II, pp. 52–53, 56).

Another resemblance between Bulgaria, on one side, and Russia, Ukraine and other CIS countries, on the other, is mafia domination of black-market activities. It is common for both state-owned enterprises and private businesses working in, or aiming to enter, profitable fields to pay protection money to gangsters and "force groups". The latter have also established control over big wholesale commodity markets in the country. In the end, illegally acquired capital is "laundered" by investing in new offices and other kinds of real estate, by buying expensive cars and state-owned hotels, and by taking it out of the country (capital flight).

While economic benefits from the postcommu-

nist transition accrue only to few groups of people, losses generated in the Bulgarian economy are being “socialized”, or dispersed in the society, adding to the burden of ordinary citizens. A recent example is the transfer of commercial bank losses to the government budget. After the collapse of seven state and ten private commercial banks – approximately one-third of all Bulgarian banks – in 1996, restoring stability in the banking sector has cost taxpayers more than US \$ 4 bln.

The main reason behind the failure of these banks was lending to related parties with no or fake collateral. Foreign-currency loans were extended to private firms on the presumption that they will never be repaid. The firm which obtained the loan would usually pay bribe money to the bank’s top managers, transfer the rest abroad and just go bankrupt. The loan would then be classified as non-performing, and the bank would continue piling up losses until it went bankrupt. Those who took bank loans and never returned them have been called “loan millionaires”. Among them are former and present members of the national parliament. The ultimate losers from the country’s banking turmoil were ordinary people who were not able withdraw their deposits from failed banks for months, and who had to endure a severe lev depreciation and hyperinflation in January–February 1997. (to be continued in 第46号)

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