EU stability plan to bring poverty, inflation to Bulgaria

Anna Rombach
11 May 2011

Bulgaria's entry into the European Union will inevitably bring increased unemployment, cuts in social spending and inflation to the country's population. The EU is currently using Bulgaria, which has the lowest wages in all of Europe, to set standards that could become a model for all of Europe.

People are particularly affected by rising consumer prices. On Thursday, April 28, thousands of enraged car owners protested against drastically increasing gas prices with traffic blockades. Already, in March and April, blockades and protests had taken place in more than 30 cities and on highways against the extreme price increases.

Many utility services have been privatised and taken over by European corporations. Since then, shutoffs of water and electricity are a common feature in impoverished villages and city districts. French utility company Veolia Environment, which took over the water supply system in the capital, Sofia, increased its water prices by 9 percent in February.

Food prices are rising as well. Even according to official—i.e., manipulated—statistics, prices for basic foods such as sugar, cooking oil and flour have risen by 50 percent, and even by 200 percent for potatoes.

Currently, Bulgaria has the third highest inflation rate in the EU, while it takes last place on the European wage scale. Some commentaries have already warned that new food riots are imminent, like those of the winter of 1996-1997, which swept away the ex-Stalinist government of the Bulgarian Socialist Party (BSP).

In a recent television interview, Prime Minister Boyko Borisov lectured the population not to lament about potato prices, but rather grow their own potatoes. Borisov is the head of a minority government of the right-wing GERB (Citizens for European Development of Bulgaria), which is backed by the far-right *Ataka* (National Union Attack) party.

The GERB administration is busy enforcing the conditions laid down by Brussels for the introduction of the euro in Bulgaria. Until now, the country was not part of the euro zone, but Borisov's government wants to sign the European Financial Stabilisation Mechanism (ESM), which was decided in Brussels on March 25 and is to come into force in 2013.

To fulfill the EU's strict financial regulations, the government has embarked on a strict austerity course. In February, Finance Minister Simeon Dyankov (GERB), a former World Bank economist, unveiled a "financial stability pact" containing far-reaching attacks on social services. The three most important measures of this project are:

1. A cap on state budget deficits—i.e., lower than 3 percent of gross domestic product and in line with the EU's Stability and Growth Pact.

2. Setting limits on state expenditure as a certain percentage of the GDP. This is the most important pillar of the project, as reduced state expenditure makes tax cuts possible. Currently, the relation of social expenditure to GDP is 36 percent. In the past decade it was between 40 and 43 percent. The corresponding value in the EU as a whole is 50 percent.

3. Direct tax rates can only be changed with a two-thirds majority in parliament. This is aimed at ensuring that Bulgarian corporate taxes stay low.

Dyankov presented his plan of February 7 at the University of Sofia and then again on a journey to the US at Harvard University's Kennedy School of Government. He bragged that "Bulgaria could be in a position to export its project of financial stability, if it works."

He is supported by Bulgarian EU Commissioner Kristalina Georgieva (GERB), who was also vice president of the World Bank from 2008 to 2010. In January, she demanded the government continue its strict austerity course. Sofia succeeded in lowering the budget deficit to less than 3.8 percent of GDP during the course of last year, with drastic cuts in pensions, health care and the public sector.

With regard to the presidential election in the fall of 2011, the EU Commissioner said that "Bulgaria should definitely continue this policy and not give in to the pressure for spending which usually arises before elections."

Meanwhile, outrage over these attacks is growing.

According to a Gallup International poll, taken in mid-March, only a quarter of all Bulgarians would vote for Borisov's GERB. Shortly after taking power, the GERB enjoyed support of more than 70 percent.

According to more recent surveys, the far-right *Ataka* party, which scored more than 9 percent two years ago, is now polling at 3 percent. Despite its occasional verbal attacks on foreign capital, its 21 parliamentary representatives consistently backed the ruling party on enforcing Brussels' demands. In addition, the party attempted to direct growing social tensions into racist channels through attacks on Roma and citizens of Turkish origin.

In surveys, a majority of respondents considered the economic situation to be bad. Sixty-two percent stated that their living standards had declined, 86 percent expect further price increases, and 65 percent expect the country's situation to deteriorate further. Fear and frustration grip all social classes.

Most people are skeptical or hostile towards the EU. Less than 30 percent of all citizens entitled to vote participated in the first European Election in 2007, and in 2009 this number had risen only slightly, to 37.5 percent.

The Bulgarian Socialist Party is trying to head off growing popular anger and has organised several protests. On March 26, about 17,000 BSP supporters demonstrated in the capital of Sofia against "the government, growing poverty and economic chaos."

At this demonstration Serge Stanishev, BSP chairman and a former head of government, agitated with pseudo-radical phrases against the government. He called it the "most incompetent in Bulgaria's recent history" and accused it of a lack of substance. He declared that toppling the government would be the first step towards economic recovery, growth and the creation of jobs.

In fact, the BSP also supports Bulgaria's membership in the EU. Since emerging from the Communist Party of Bulgaria in 1990, its policy had been directed strictly at privatising public property and joining the European economy. As the country's ruling party in 1995, the BSP made the initial application for EU membership.

Before Bulgaria entered the EU, the BSP implemented massive privatisations as well as a flexibilisation of the labour market, and thus set the framework for exposing Bulgaria's working class to exploitation by European big business. The party also awarded tax privileges to its own officials, known as the "red millionaires".

Now the BSP is beating a nationalist drum and criticising the EU from the perspective of domestic business interests.

Former BSP finance minister Georgi Kadiev, for instance, called the Stability and Growth Pact a "ultra-repressive tool against Bulgaria's economy" and a "straitjacket with which Borisov's cabinet will abolish its own freedom of movement." It accused the government of conducting a "war against business" with its strict spending cuts.

In parliament, BSP leader Stanishev demanded a policy dominated by national interests. The treaty with the EU was "unbalanced in macroeconomic and social matters." The GERB government had signed it "blindly" and "put Bulgaria in serious danger."

President Georgi Parvanov, also a BSP member, has similar positions. He claims that signing the Stability and Growth Pact would cause "incalculable costs for the country without doing any good."

In spite of their economically nationalist tone, the BSP ex-Stalinists, as well as the right-wing bourgeois powers, have been closely cooperating for 20 years with the EU, World Bank and IMF.

Eighty-two percent of Bulgaria's banks are now in Western hands. Among the foreign banks that call the shots in Bulgaria are JP Morgan, Goldman Sachs, Commerzbank, Merill Lynch International, Royal Bank of Scotland, Credit Suisse, UniCredit and Raiffeisenbank.

In 1997, the right-wing government of Kostov gave control of the country's economy to the so-called Currency Council, which is dominated by the IMF, World Bank and Deutsche Bank. This council controls monetary policy, taxes, public service wages and social and economic policies. It also stipulated that the lev, Bulgaria's currency, be tied rigidly to the D-mark and then later the euro.

Hannes Hofbauer, an expert for eastern Europe, wrote in 2007, when Bulgaria entered the EU that "Bulgaria was socially extinct after this currency reform, and has remained so to this day". He made this comment before the global financial and economic crisis of 2008, an event that hugely intensified the crisis in Bulgaria and many other eastern European economies.