

This article was written by Richard W. Rahn exclusively for Manager

Where is Bulgaria?

It is quite behind Estonia and decades away from America. But it is in a very good position in order to take advantage of the coming global growth cycle

BULGARIA HAS MADE considerable economic progress in recent years, both in absolute terms and relative to that of other countries. Real per capita incomes have almost doubled in the last ten years. Even so, the average Bulgarian still only has about one-third of the income of the average member of the E. U., and only about one-quarter of that enjoyed by the average American.

Despite its problems, Bulgaria has become an unambiguous economic success in the last decade. I first arrived in Bulgaria almost two decades ago when, under the communists, people waited in long lines for basic goods like bread and milk. The housing was almost uniformly shabby, and most people were not well dressed. The cities were dark and dreary with almost no appealing retail activity. The roads were in deplorable condition and the state-owned gas stations were filthy.

All of that has changed. Beautiful, well-stocked stores have sprung up almost everywhere, containing world-class brands and merchandise. One no longer has difficulty finding a McDonald's for a quick meal or a fine restaurant for leisurely enjoyment. Most people, particularly the women, are now very well dressed in the latest European fashions. The Black Sea coast from north to south is filled with modern hotels, new vacation homes, and luxury condos. In the short space of less than twenty years, Bulgaria has become a modern, middle-income, free-market, democratic country.

Could Bulgaria have done better? The answer is, of course, yes. In 1989, both Estonia and Bulgaria had roughly the same per capita income. Estonia started its reform process quickly, made fewer mistakes, and was the first

of the former communist countries to adopt both a flat tax and a currency board. The result is that Estonia has a per capita income almost double that of Bulgaria and already two-thirds of the E.U. average. In recent years, Bulgarian real GDP has been growing at a very respectable 5 to 6 percent per year. The country has been very fiscally responsible, running a large budget surplus, in part due to its new 10 percent flat income tax. If Bulgaria further reduces regulatory drags and corruption, it ought to be able to increase its average growth rates from 7 to 10 percent per year, once the current global economic downturn abates. A 10 percent growth rate would mean that real incomes would double in as few as seven years, and within another two decades, the average Bulgaria would be as rich, or richer, than the average American today.

How Does Bulgaria Rank (relative to other countries)?

33 per cent have a higher per capita income (PPP measure)

38 per cent have greater economic freedom

25 per cent make it easier to do business

49 per cent have longer life expectancies

40 per cent have less corruption

29 per cent have more automobiles per capita

Economic freedom is highly correlated with economic growth and per capita income. Fifteen years ago, Bulgaria was in the bottom 20 percent of countries, but now it is in the top 40 percent when it comes to economic freedom. Even though this rise in the rankings is impressive, Bulgaria still has a way to go to be in the top 10 per-

cent, where it should be. Bulgaria needs to reduce the size of its government relative to the economy. Large government drains away productive resources from the private sector, thus slowing real job growth and incomes. Bulgaria could greatly increase its economic freedom rankings (in the Heritage Foundation/Wall Street Journal Index and in the index published by the Fraser and Cato Institutes) by reducing unneeded and counterproductive regulation and by cleaning up corruption in the court system.

The World Bank publishes an annual index and ranking of countries regarding the ease of doing business. Bulgaria has greatly improved its ranking in recent years, but, again, there are improvements that need to be made. It still takes too long and costs too much to start a business in Bulgaria. There is no reason that procedures cannot be implemented to allow entrepreneurs to do the necessary paperwork over the Internet within a couple of hours. The requirement for certain minimum capital should be abolished. The construction permit process in Bulgaria is too long, expensive, and uncertain, and it needs to be streamlined. Also, the continuing problem of enforcing contracts in Bulgaria is a major impediment for both foreign and domestic investors.

A good measure of overall health care for the population, both past and present, is life expectancy at birth. Bulgaria barely places in the top 50 percent of all countries - with a life expectancy of seventy-three years'. Most of the E.U. member nations have life expectancies of eighty years or close to it. None of the former communist nations is ranked high in life expectancy, even though the communists claimed that they provided free

health care to all. Free and universal health care is not the same as quality health care and lifestyles. All too many Bulgarians still smoke, though the dangers are well known. Bulgaria does have the advantage of not unduly impeding the development of private health care providers; and in future years, as they take care of an increasing share of the Bulgarian population, it would be expected that life expectancies would greatly increase. The good news is that Bulgarian life expectancy is already increasing at a rate of three months for each additional year lived, which is now the norm for rich nations.

Transparency International does an annual ranking of countries as to their perceived corruption. Again, Bulgaria has improved its place on this ranking for many years, but, as the E.U. sanctions have illustrated, Bulgaria is still considered to have an unacceptable level of corruption in its court system. This corruption discourages investors from making investments, which, in turn, deprives Bulgaria of the jobs, growth in productivity and economic growth that it would have in the absence of such corruption. Bulgaria would likely add one or two points to its annual rate of economic growth if this corruption were largely eliminated.

The number of automobiles per capita is a good proxy measure for the level of prosperity that the people enjoy. Twenty years ago, relatively few Bulgarians had automobiles; the ones they did have tended to be ugly Ladas and unsafe Trabants. Bulgaria now has twice as many cars per capita as it did fifteen years ago and a much safer and more attractive automobile stock - and, of course, the traffic jams that come with high levels of automobile ownership.

Economic progress can be measured by the numbers. But when a major daily topic of conversation changes from "where can I go to find bread" to "I am sorry I was late because of the traffic jam," you know that economic life has reached a whole new level. The economic progress Bulgaria has made is impressive, but perhaps even more important is that Bulgarians are now free to select their own leaders and no longer fear criticizing political leaders in private or in the media.

Finally, Bulgaria has been running



RICHARD W. RAHN is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth. Here he is mostly recognized as the team leader of the group invited in 1990 by the former Prime Minister, Andrey Lukanov, to prepare the project for the transition of our country into a market economy. He was also an economic advisor to Bush-senior during his presidential campaign in 1988. Today he is an economic observer and a member of the board of directors of the monetary council of the Cayman Islands - an institution that governs the world's fifth biggest financial center. He is also a senior associate in the Discovery Institute, chairman of the Council for investment forming established in our country and vice-chairman of the consultative council of the Institute for Market Economics.

a large trade deficit, which has occurred because of the large amount of foreign investment (primarily for real estate) it has received. Given the world-wide financial situation, foreign investment in Bulgaria is almost certain to drop substantially, thus reducing the amount of money Bulgarians will have to buy foreign goods. As a result, Bulgarians will see a slowdown in economic growth, which makes it even more imperative that Bulgaria finish the economic

reforms noted above. Fortunately, Bulgaria is in very good fiscal shape and should be able to weather the economic downturn better than most countries because of its budget surplus and healthy banks. But if Bulgaria does not finish the reforms, it will stagnate; however, if it finishes them, it will be very well placed to take advantage of the next global growth cycle - with most Bulgarians enjoying a prosperity that previous generations thought unattainable. ■