

SWP 14/91 BULGARIA, PERESTROIKA, GLASNOST AND MANAGEMENT

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BULGARIA, PERESTROIKA, GLASNOST AND MANAGEMENT

Recent developments in Eastern Europe have spectacularly caught the headlines. Under the banners of Perestroika and Glasnost, the peoples of eastern Europe have expressed their desire for greater freedoms, not only in the political but also in the economic sphere. Long queues in front of virtually empty shops starkly point up the inefficiencies of the economic system of countries in Eastern Europe such as Bulgaria.

Leaders and experts in Eastern Europe want to remedy this situation and there have been moves to forge links with industrial and commercial Western enterprises (joint ventures) and seek the expertise of institutions of management education. Cranfield for example, has recently agreed a joint contract with the Bulgarians and the Robert Maxwell Organisation. The School also has links with Hungary, one of the most progressively westernised of the Eastern bloc states.

In the wake of events in Poland and East Germany, the Bulgarians too have ousted their long standing leader Todor Zhivkov and began a series of reforms. This paper attempts to give some explanation for these developments with particular reference to Bulgaria.

Bulgaria has a population of 8.9 million a significant minority of whom are Turks, Gypsies and Greeks. It is situated to the west of the Black Sea, and is bounded by Turkey and Greece in the South, Hungary and Rumania to the North and Yugoslavia to the West.

It has fertile agricultural land producing plentiful crops of cotton, tobacco, maize, vegetables and Mediterranean fruits, including grapes, the last of which has supplied an internationally successful wine export business. However, it is not very rich in natural resources and until the 1950's the predominant occupational sector was agriculture.

In 1949 the Communist Government set up the apparatus whereby the Bulgarian economy was to be weaned from its 'over dependence' on agriculture and was to develop a heavy industrial base. The land was nationalised and collectivised. This was a formidable task as it was divided into 1.1 million private holdings. Predictably the agricultural policy gave rise to serious social and political unrest which was only suppressed by methods reminiscent of those used by Stalin in the 1930's.

After the death, in 1949, of Georgi Dimitrov (the founder of the post war communist state), the leadership passed into the hands of the pro-Stalinist Vulko Chervenko, who continued the industrialisation policies in a vigorous and brutal manner. The element of fear thus created posed a huge obstacle to democratic change as people were reluctant to speak out in case they found themselves in contravention of the Party line. The best protection was to become a Communist Party member, and between 1944 and 1948 Party membership figures rose from 15,000 to 460,000. Many of these new members were aparatchiks and careerists, only too ready to endorse the Party line and discredit rivals to further their own ambitions. The Bulgarian dissident writer Georgi Markov vividly describes such people:

"Uneducated, half literate and intellectually insignificant citizens suddenly found themselves occupying important posts purely because of local Party connections, and yet entirely in the spirit of overall Party policy. Innumerable times in my own work (as a shop floor worker and later middle manager) I collided with unbelievably mediocre and entirely inadequate directors, heads of sections and ministerial department chiefs. My colleagues still remember their legendary inanities. Incapable of thinking for themselves or taking decisions on complex questions of production, they were utterly obedient, blind instruments of those who had appointed them."

He continues

"For many years they ruined whole industries with their incompetence, lack of experience and, above all, dishonesty and selfishness. They were greedy, avid for success and did not spare either people or materials in order to be able to report some supposed achievement, which eventually turned out to be either a fraud or else to have been attained at much too high a price." (1)

A society permeated by fear and distrust creates a conspiracy of silence and such an atmosphere does not allow critical appraisal of the problems with which it is faced. If the problems are not publicly recognised then it is impossible to remedy them. In this fashion a self-perpetuating bureaucracy contains its problems through force, like a lid on a pressure cooker.

The second major problem which afflicted Eastern Europe was the rigid ideological base from which flowed all political economic decision making. Stalin's hurried industrialisation of the Soviet Union in the 1930's became the model for all other communist states. Chervenko and his successor, Todor Zhivkov, who came to power in 1956 slavishly emulated the Soviet model despite its limitation for Bulgaria which lacked the necessary raw materials for heavy industrialisation.

A series of five year plans turned Bulgaria from an agricultural to a predominantly industrial country, as the table below reveals.

	1934	1956	1983
Agriculture	69%	70%	21%
Industry	14%	16%	45%

Occupational Distribution in Bulgaria

As the agricultural sector declined in relative terms plans were made to enter the iron and steel industry in a concerted way in the 1970's. Bulgaria lacks sufficient iron ore and is largely reliant on imported sources. There was a need to 'buy in' foreign expertise and embark on long employee training programmes, as well as invest huge capital sums in the infrastructure of such an ambitious enterprise.

A similar scheme was developed in the oil industry. Bulgaria was totally reliant on subsidised oil imports from the Soviet Union and yet it set up a huge oil refinery near Burgas on the Black Sea, which now pollutes large areas of the

surrounding shoreline. These enterprises were developed when world markets in both these areas were plummeting.

Agricultural exports were used to prop up these disastrous schemes often at the expense of the Bulgarian people who saw food produce disappear from their shops to further the export drive to pay for these industries.

The third consequence of such a system was the development of a second economy where official currency exchange rates were far below black market rates. In such an underground system barter and 'favours' play an important role. In the Soviet Union it is called 'blag' and in Bulgaria 'vruska', which means ties or connections. Managers and workers would appropriate various useful products to which they had access and use them as barter for items in short supply. Favours were returned for other favours or goods. For example, a butcher might keep special cuts of meat for a person in a car enterprise allocation office in return for being put further up the waiting list for a new car. Such a system operated in all levels of society and throughout Eastern Europe. In essence the system was only made workable by a network of clandestine and often illegal and corrupt practices in which the lowest and the highest members of the communist state were involved. Thus the appointment of a manager meant that his or her success was as much reliant on their network of influential acquaintances and contacts as the required skills and knowledge of the job.⁽²⁾

Combined with these influences was a general malaise of poor quality products and erratic delivery of supplies. In the face of all these problems the factory or enterprise had to fulfil often unrealistically high targets set by planners, who usually did not take into account supply shortages. Not surprisingly managers became past masters of the manipulation of statistics in order to display fulfilment or overfulfilment of plan targets. Markov testifies of his experiences in a Bulgarian factory in the 1950's:

"During that time I learned an unwritten rule. 'It is not important to finish your work, the important thing is to render an account of it!' This rule led to all sorts of production tricks, the gist of which was to report on work which had not been carried out. In order to report an overfulfilment of the plan, the production targets were deliberately set well below the capacity of the works."⁽³⁾

Haraszti, the Hungarian dissident writer, attests to similar practices in a Hungarian engineering factory in the 1960's⁽⁴⁾. This example can be replicated in all eastern European states.⁽⁵⁾ The system was as much entrenched in Bulgaria in the

1980's as it was thirty years before if we are to believe Zhivkov in a speech railing against the quality of Bulgarian goods.⁽⁶⁾

Even foreign products manufactured under licence, in some of the joint ventures, he said, had been 'Bulgarised' - a word which in essence has come to mean low quality production. Zhivkov blamed poor controls, weak labour discipline and the lack of incentive. Although such reforms were needed, the problems were more deeply rooted, and would mean the denial and criticism of policies that he himself had played a major part in creating.

The lack of motivation of the workforce was well known in Bulgaria and Eastern Europe. Incentive systems did exist in the form of bonus payment schemes, but they were operated in a way in which workers could work to exhaustion to increase output, with a consequent lack of quality. All enterprises had their 'norms' departments staffed with specialists, who set the targets for each work group and individual. Basic wages were set at a low level so that the worker had to strain to fulfil the norm. "But the norm was not something permanent: as soon as it was overfulfilled by ten per cent, that was the signal to raise it."⁽⁷⁾ Stronger and more skillful workers annihilated the weaker and more clumsy ones, as the Stakhanovites had done in Stalin's Russia.

What of the trade unions? Why did they not attempt to protect the workers' rights? The main reason was that although trade unions appeared on paper to be independent representatives of the workforce in reality they were appointed by Party officials and managing directors. As miners in Western Siberia, Donetz and Kazakhstan explained during last year's strike: "Trade Unions in many areas are simply not defending their members . . . In fact, trade union committees have up to now been controlled by and responsible to the local Communist Party organisations . . . and are often laid open to accusations of favouritism or injustices . . . (unions) should be independent of the Communist Party and the Government."⁽⁸⁾

It is interesting to note that workers in the heavier industries such as coal mining are more militant than in other economic sectors and one of the major reasons for this is the inability of miners to engage in 'blag' or 'vruska' to the same extent, for example, as shop workers who have access to consumer goods and services.

Attempts at reform were made on many occasions in Bulgaria and Eastern Europe in the 1960's and the 1970's with periodic purges of corrupt Party and public figures, but these failed to have any lasting effect. Endeavours were made to restructure work organisation under the Brigade system in the 1970's but economic slump in the early 1980's undermined these radical reforms in Bulgaria. The basic idea was considered a good one, however, as it was felt that greater democratisation and allowance for group and individual initiative in the work place could improve quality and output. Even the failed, previous experiments seemed to indicate this.

The Brigade System

The major Bulgarian reform was to introduce 'planning from below' in the form of a counter plan devised by the workforce which would allow them to devise targets beyond the plan which were created and controlled by themselves. In addition, workers' and managers' wages and salaries were linked to performance. This was known as the Brigade System and its roots go back to the Soviet Union in the 1920's. The new type of Brigade was "to operate on the principle of internal cost accounting" and the money earned would be distributed by the Brigade according to qualifications and the personal contributions of every member. The emphasis was to be on the economic criterion of efficiency and quality of production.⁽⁹⁾

A Brigade, on average, is made up to 50 to 70 workers, and each enterprise is divided into such brigades. Obviously there is variation in size depending on the plant. In very large organisations brigades could contain as many as 200 to 300 workers, and in smaller enterprises more commonly, 20 to 50 workers.

All Brigade members make the Brigade Assembly which elects the Brigade leader annually, as well as a Brigade Council. The Shop Steward (Profgruporg) and Safety Representative are elected by the Trade Union Assembly, which in effect has the same membership as the Brigade Assembly. The Brigade Party Group, ie Communist Party members, also have the right to elect a Brigade Party organiser, but neither the Brigade Party organiser nor shop steward have the power over the Brigade Leader.

The reformed Brigade system was widespread in Bulgaria by the mid 1980's and given further backing by the economic reforms introduced in January 1987.

The aim of the new Brigade was to create incentives without exploitation, and involvement without alienation. The Brigade existed to promote collective

consciousness and responsibility while at the same time rewarding individual effort. Thus the five major functions of the Brigade were seen to be:

1. Overseeing and enhancing production technology
2. Responsibility for machinery
3. Integration of tasks
4. Feasibility of accounting for results so that they can be attributed to the Brigade
5. The recognition of the Brigade as a social as well as a production unit.

The Brigade also has rights in approving the counter plan, agreements with management, rules and regulations, distribution of earnings, disciplinary measures and the admission and dismissal of workers to the Brigade team.

In this way, it is hoped that the improvement in the quality of working life would make for an improvement in the quality and quantity of production. The Brigades, for example, would put pressure on managers to ensure the flow of raw materials and regularity of supplies. By making the Brigade and its individual members responsible for machines this would assure that they would be carefully maintained bringing reductions in maintenance costs and loss of production due to breakdown.

The system has only been in widespread use for less than two years and recent events have overtaken these attempts at reform within the communist regime. There has been a demand for market economy policies of the type in practice in Western Europe, the belief being that prosperity will be assured, and the shops will be filled with consumer goods so enticingly on display in Western shopping malls.

The initial euphoria, however, is beginning to wear off and a more realistic appraisal of the glasnost economies is taking place. Recognition of the enormity of the task is the first stage followed by a down to earth assessment of the capabilities of the economy. Is it possible that Poland can turn into a Belgium overnight or Czechoslovakia into a West Germany? This is improbable not only due to the restraints which the Communist regimes of the past imposed on the economies but also the restrictions of the present potentialities of the economy.

Bulgaria and Romania are, for example, primarily agricultural economies, and at least not heavily industrially based. Both countries have extraordinary fertile land and have therefore, the ability not only to feed their relatively small populations but also to provide agricultural exports to fund other enterprises; but these enterprises need to be compatible to the natural proclivities of the economy. Thus the manufacture of iron, steel and chemical petrol products is counter productive in any economy which relies heavily on imports of raw materials and is part of an extremely competitive world market dominated by Germany, Japan, USSR and USA.

Bulgaria could, like Japan, make use of its well-educated workforce, but this begs the question - educated for what? The curriculum for schools and colleges certainly needs to be less theoretically based and more practically orientated toward 'Third Wave' newer industries such as computers and electronics. Bulgaria has already made an attempt to enter the computer market but lacks quality production in both hardware and software. It still does not have the abilities to produce silicon for the chips and the electronic hardware needs more quality control to assure reliability and user friendliness.

Another major problem presently grossly underestimated, is the need to change attitudes in working and managerial practices. The system based on barter and favours will have to go if an efficient economy is to be remotely achievable. However, initiatives in changing social attitudes are notoriously difficult as there are often too many vested interests in the old system.

In addition industrial initiative and responsibility will need to be encouraged. Under the old system employees throughout the workforce were loathe to take decisions for if they were wrong they would get blamed, and in making mistakes would pay a heavy price: the loss of job, the ruination of career prospects and social and even political castigation. It is not surprising that most of the workforce including highly placed managers and directors kept their heads down and continued to attempt to work an increasingly moribund system. No one welcomes the few brave individuals who pointed to the absurdities even though much of what they said was true.

Many western commentators have also not been helpful, crowing over the downfall of the Soviet system or claiming a vindication of the free market and western political institutions. Groups of experts trooping over to Poland advising the setting up of stock markets, advocating wholesale privatisation and the loosening of all economic restrictions, show very little understanding of the Eastern European system. To change overnight into a western style economy would be extremely

difficult and even if it were possible such delights as high unemployment, poverty and the creation of an underclass, would inevitably result, along with such spin offs, as a resurgence of nationalist demands.

Already a back-lash to the '89 revolution is apparent as the shops still remain empty, people are bitterly commenting that "at least under Breshnev there was enough food in the shops", and that "you can't eat glasnost".

Solutions cannot be packaged in the west and bought wholesale like some panacea. There are also economic and cultural differences to consider. Bulgaria has different traditions and attitudes to Poland as well as different economic strengths and weaknesses. What the West can do effectively is offer financial aid, without strings! This would not only help the delicate newly-found freedoms to grow, but create a much more positive atmosphere of cooperation between East and West. That would be progress indeed!

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