

## REPORT

# On Project “National Alliance – Bulgaria for Democratic, Social and Sustainable European Semester”

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## The project

This report is a result of pilot project: "National Alliance for Democratic, Social and Sustainable European Semester". The project is fulfilled in Bulgaria as response to the fact that although the social partners and other civil society structures develop and present their positions and try to influence the European Semester, their efforts often are not sufficient, the impact often remains fragmented, publicly unknown and the added value does not match the invested effort. Therefore there are significant opportunities for improvement in the coordination of civil society organizations, for stimulating a more effective and useful participation in the European Semester.

The overall objective of the project "National Alliance for Democratic, Social and Sustainable European Semester" is capacity development and pro-active and coordinated involvement of trade unions, social and environmental organizations in Bulgaria in order to improve their impact in the European Semester process. The project also allows the participants to present publicly the way they participate in European Semester and the effects of their participation.

In order to achieve this aim, civil society structures in Bulgaria created a National Alliance with the task to assess how compatible are their visions about democracy, sociality and sustainability with the real process of European Semester as an annual policy cycle.

Since the evaluation of all phases (documents) of the European Semester is a large scale task, the review is focussed on a limited number of phases (relevant documents) of the European Semester. The project "National Alliance Bulgaria for Democratic, Social and Sustainable European Semester" provides for the evaluation of the Semester to focus on three of its phases (relevant documents): the Annual Growth Survey (AGS), the Country-specific Recommendations (CSR) and the National Reform Programme (NRP).

Since these phases (documents) play a key role in the Semester, the assessment of their political effectiveness and governance quality could be sufficiently informative for the quality of the entire process of the Semester.

Till now (beginning of September 2014) participants in the project made the following main steps. First, after initial meeting (May) all participants sent to the coordinator their opinions and assessments about the Semester. Second, on the bases of participants' contributions, the coordinator prepared a first draft of the common report and presented the draft to the participants. Third, participants elaborated (new) comments, remarks, suggestions, proposals about the first draft. Forth, a second draft of the report was elaborated on the basis of the participants' suggestions. The second draft again was disseminated, but among wider range of NGOs. Sixth step is forthcoming – in September and October several events will be organized for presentation of the report to the public at large. Probably then other CSOs will join the Alliance assessments expressed in the report.

Civil society structures that took participation in the elaboration of the report till September 2014 are:

1. Confederation of Independent Trade-Unions (CITUB)
2. Confederation of Labour "Podkrepa" (CL "Podkrepa")
3. Bulgarian Foundation for Gender Research (BWL)
4. Union of Retirees – 2004
5. Solidarity Bulgaria
6. Union of Economists in Bulgaria (BUE)

7. Association Bulgaria Si Ti
8. Alliance for Children and Youth
9. Foundation "Health and Social Development"
10. National Federation of Employers of People with Disabilities
11. Association "Best 2 Be"
12. National Alliance for Social Responsibility
13. Foundation "Blue Bird"
14. Anti-Poverty Information Centre (EAPN Bulgaria) – co-ordinator

Academic researchers also contributed to the elaboration of the report

## **PART ONE: COMMENTS AND OPINIONS ON THE MAIN DOCUMENTS OF THE SEMESTER**

### **I. ANNUAL GROWTH SURVEY (AGS)**

#### **1. Preliminary remarks**

European governance, as any governance, can be seen as a process of permanent and in-depth analysis of the situation (or 'processing risks') consisting of several major phases: creating a notion of the realities; based on the notion are identified critical risks (major problems); based on the analysis of the risks identified are selected and applied tools (policy measures) in order to neutralize them. If this governance process is successful, it transforms the economic and social dynamics in a series of changes that can be defined as 'progress' or 'development'; if the governance process is not successful, it does not create an adequate picture of social realities; does not identify the most important risks (and therefore does not look for responses to them) or does not find the most effective responses to those risks that it nevertheless managed to notice.

This logic of the governance process should be followed also by the European Semester as an annual policy (governance) cycle, as deviations from the logic or inadequate implementation of the different phases of the governance process may give rise to very negative results. It is therefore important to review the components of the Semester based on (in terms of) the above phases of the governance process and to create awareness of the level (quality) of the implementation of these phases.

In particular, the quality of the European annual governance cycle can be judged by the answers to the following questions:

1. To what extent the specified documents create adequate (realistic, complete) notion of the economic and social realities;
2. To what extent (based on the notion) are actually identified the most important risks that carry especially big threats to European citizens and their communities;

3. To what extent the defined priorities and measures are effective in neutralizing the main threats identified.
4. To what extent the stated policies are applied in practice, i.e. do the documents and reports reflect actual governance practices?
5. Since it is established beyond doubt that the quality of the identification of problems (risks) and the selection of adequate measures to neutralize them depend to the greatest extent on the democracy of the governance process, including also the broad participation of stakeholders, then the judgments about democracy and participation are an essential part of the assessment of the quality of the entire governance process.

## 2. Opinion of the Alliance for the Annual Growth Survey (AGS)

(Brussels, 13.11.2013, COMMUNICATION FROM THE COMMISSION. Annual Growth Survey 2014 {SWD (800) final)

### 2.1. The AGS Content

**AGS has an important role in the course of the European Semester - AGS** launches the yearly European Semester by setting out the broad EU economic priorities for the year to come and for Europe 2020, and invites Member States to take these into account when devising their National Reform Programmes (European Alliance toolkit).

In its Communication the Commission states that „...The Annual Growth Survey (AGS) takes stock of the economic and social situation in Europe” and that „This year's guidance is set against the background of several significant economic and policy developments”.

"The significant economic and political developments," that are established are as follows:

Firstly, the economic forecasts just published by the Commission confirm signs of a slow recovery in the EU. After five years of very limited or negative growth, the EU has experienced positive growth in the second quarter of 2013. The recovery is expected to continue and to become more robust in 2014. ...

„We have reached a turning point in the crisis”.

Secondly, this AGS is published at the same time as new rules on the coordination of budgetary policies in the Euro area are implemented for the first time in full. In mid-October, all Euro area Member States, except those implementing a macroeconomic adjustment programme had to present draft budgetary plans for the coming year. The role of the Commission is to review whether Member States are adopting the necessary measures to achieve the objectives agreed at EU level, before budgets are finalised at national level...

Thirdly, 2014 will be the first year of implementation of the new European multi-annual financial framework. In addition to projects conducted jointly at EU level to boost Europe-wide innovation and infrastructure, an investment capacity of more than EUR 400 billion will be mobilised to boost growth and jobs at national and regional level through the European Structural and Investment Funds (ESIF).

Based on the established “significant economic and policy developments”, AGS “sets out broad policy priorities for the EU as a whole”:

1. Pursuing differentiated, growth-friendly fiscal consolidation
2. Restoring lending to the economy
3. Promoting growth and competitiveness for today and tomorrow

4. Tackling unemployment and the social consequences of the crisis
5. Modernising public administration.

In fact, AGS attaches particular importance to fiscal stability and improving competitiveness (Frederic Lerais defines it as "obsession with competitiveness").

## **2.2. Opinions about the AGS content?**

Alliance members provide a number of specific comments on the AGS content.

A. Although in the introduction of AGS as important levers are mentioned stimulating of domestic demand and the importance of fairness considerations ("The gradual recovery will underpin domestic demand which is expected to take over as the main engine of growth. Fairness considerations and clarity about the goals to be achieved will be essential to secure the lasting success, efficiency and public acceptability of efforts at national and European level.", page 2), neither the first nor the second were performed consistently and were not converted to basis for action. Actually these ideas are completely forgotten and are subordinated to the philosophy and the tools of austerity measures when formulating priorities and sub-priorities.

B. Since AGS pays less attention to social developments, challenges and risks, there is no hint of the need for the introduction of an alert mechanism in the social sphere, which is similar to the Alert Mechanism Report, tracking macroeconomic imbalances. Moreover, this is happening in a time when setting of priorities in AGS and thus the country-specific recommendations become more important for directing the flows of funding - "For the first time the policy and the funding are being brought together in what can be a very powerful driver of growth, provided funds are concentrated on priorities.", page 3. The expected result of such views and actions is a shortage of financial resources to achieve social goals.

C. AGS examines trends in the tax systems of countries where tax levels were increased and calls for shifting the tax burden from labour to consumption, property and nature conservation. ("In terms of revenues, tax levels have increased as a result of the crisis. Tax systems should be redesigned by broadening tax bases, and shifting the tax burden away from labour on to tax bases linked to consumption, property and pollution. ... coordinated action (is needed) to tackle aggressive tax planning and tax havens ...", page 7). This specific approach to tax systems has some advantages, but along with this the view advocated in AGS has the following particularities:

a) The Union of Economists in Bulgaria (UEB) highlights in particular that AGS (and other documents of the Commission) ignore or downplay the clear trend towards the introduction of new, different from the European traditions and practices, tax model. Already more than 10 countries - new EU members practice the flat rate tax scheme and the results are obvious: maintaining and increasing income inequalities; constant shortage of funds for the state budget; repayment of the shortage by cutting social spending and using money from EU subsidies, i.e. funds from other European taxpayers.

b) Instead of focusing on the well-known distinction between direct and indirect taxes (a distinction, which takes into account their different impact on income distribution, respectively. - inequalities), recourse is made to distinction by 'economic function' - taxes on labour and taxes on consumption. This distinction is far less related to income inequalities and is even irrelevant to many aspects of inequalities. Therefore, the measures envisaged in taxation ignore the enormous income disparities and their negative effects on the economy

and living standards.

c) It is reasonable to expect that the requirement for transferring the tax burden from labour to consumption is accompanied with a clear overview of the current situation by Member States. Such an overview could give an idea whether there are groups of countries in which the share of indirect taxes is very high (In Bulgaria, for example, the share of indirect taxes in the total tax revenue is higher than the sum of revenues from contributions and direct taxes.). The problem is not in the lack of data (see, for example, Taxation Trends in the European Union, Data for the EU Member States, Iceland and Norway, Eurostat, European Commission, 2011). Data definitely shows a huge variety among the different member states. “In general, Member States from Eastern Europe, which are often characterized by lower taxes, often differ also in terms of their composition; in particular, while most member states have approximately equal shares of revenues from direct taxes, indirect taxes and social security contributions, in Eastern European member states there is often a significantly lower share of direct taxes in the sum total. The lowest shares of direct taxes are recorded in Slovakia (19.2%), Bulgaria (20.2%) ... One of the reasons for lower revenues from direct taxes can be found in the generally more moderate tax rates applied in the Eastern European member states for corporate tax and personal income tax. Furthermore, some of these countries have adopted flat tax rate systems, which normally induce a strong reduction in the rates of direct taxes, unlike those of indirect taxes.” Given the negative impact of the flat tax on consumers of low and medium levels (of income and consumption) a clear identification of these problems could be expected and a proposal for the abolition of the flat tax. Nothing of the kind is found in the EC document.

Instead of giving a clear picture of the problems and deviations, AGS points to increasing the consumption taxes, which (at least for some countries) is inconsistent with the limited and distorted consumption and with the afore mentioned (alleged) stimulating of domestic consumption. “Solidarity Bulgaria” strongly emphasizes that the recommendation to increase indirect taxes is contrary to the aspiration (stated already in the introduction of AGS) to restore domestic demand as the main engine of growth and the increase in consumption taxes can be considered fair if it refers to the consumption of luxury goods.

Considering the tax measures discussed and recommended in the AGS, UEB raises the question: is it possible in this state taxation to conduct coordinated anti-crisis strategy and policies for new growth?

D. Part 6 provokes special questions: Tackling unemployment and the social consequences of the crisis, which is being maintained in the situation of the ‘poor relation’:

a) As UEB noted, quite obviously is avoided the question of whether new quality jobs are created or whether in many countries, including Bulgaria, a tertiary subsidized labour market is developing and purposefully is encouraged uncertain and part-time employment, occasional work, etc., which rapidly increases that segment of employment, which Guy Standing called ‘precariat’.

b) It turns out that the increase in inequality, increasing poverty and other aspects of the social situation are interpreted as uncontrollable processes, yet at the same time priority is given to a number of measures, even when they worsen poverty, unemployment and inequality. (“Given the time lag between economic recovery and impact on employment, the situation is not expected to improve rapidly and inequalities may rise.”, page 11).

c) As a result, is effected a continuous deferment of the necessary measures for the future (e.g. adequate income support), although namely such measures would stimulate domestic demand and fairness considerations.

d) The idea of reducing the tax burden on labour (“To stimulate job creation, action should be taken to reduce the tax wedge on labour, ... , in particular for low paid workers and young workers”, page 12) implies a clear picture of where the tax burden on low-paid workers is the highest. But this picture is also omitted in the AGS, allowing impacts on the various groups to be voluntaristic and intentionally selective. According to “Solidarity Bulgaria”, as taxes on labour are paid primarily by employees there is no reason to expect that the reduction thereof will affect the creation of jobs. And a recommendation for reduction of social security contributions is in conflict with the need to improve the sustainability of social protection systems referred to on p. 9 in the document: “At the same time, there is a widespread need to strengthen the efficiency and financial sustainability of social protection systems, notably pensions and healthcare systems.”

e) Similarly, the statement that salaries should be in line with labour productivity is not accompanied by a clear picture of the situation in the different countries: in which groups of countries there is compliance; in which groups of countries there is no compliance and the deviation is in favour of labour productivity; in which groups of countries there is no compliance and the deviation is in favour of labour cost. The absence of such a picture leads to vague criteria in trying to influence individual countries. Analyses of CITUB show, for example, that in Bulgaria the salaries are relatively low compared to the level of labour productivity. Another comprehensive study conducted in Bulgaria in 2014 and commissioned by MLSP shows that according to 55% of the employers the minimum insurable income does not cause a reduction in the number of low skilled workers/employees.

AGS points out that: “In some less vulnerable Member States, reform efforts have been slower or even delayed and have been less ambitious.“. But what if the authors of AGS were wrong in finding such behaviour of the member states to be wrong? As "Solidarity Bulgaria" noted, given those weaknesses in AGS, it is fully justified that relatively stable member states do not take the risk of applying unreasonable prescriptions for reforms that would further undermine their economic stability and social equilibrium.

More examples could be given that clearly point to two types of questions: Does the AGS clearly identify the situation, the challenges and priorities for the European Union? Do the priorities and recommended actions outline a clear path on which to develop the country-specific recommendations?

The observations of the participants in Bulgarian Alliance rather lead to negative answers to these questions. They provide further arguments in support of their opinion.

### **2.3. Expected AGS Structure**

Given the role of the AGS in the European Semester and the preliminary remarks on the content of the governance process, the participants in the Alliance believe that the AGS should solve several important problems or in other words - the structure of the AGS should include a number of key components. The lack of such components is a serious signal for particular weakness - deformation - of the AGS structure (or as good as - insufficient capacity to perform the basic tasks of the governance process).

The components referred to are the following:

**A. The Europe 2020 Strategy sets a comprehensive main goal - to achieve "smart, sustainable and inclusive growth".** As the Semester must provide the following (implementation) of Europe 2020 (respectively - its main goal), the prime task of the Growth Survey is to identify the type (basic quality characteristics) of the economic growth, which is actually achieved in the EU (in the individual member - states) and to establish whether and to what extent the real growth has acquired features of "smart, sustainable and inclusive growth"

or deviates from the strategic goal<sup>1</sup>. Apparently, such an assessment is an absolutely essential component of AGS.

**B. Closely linked to the above task is another task** - to check whether and how far are achieved the other (5) objectives of the Strategy. Since it is assumed (leaving aside the question whether this is indeed the case) that these other objectives are consistent with the primary objective of Europe 2020 and are effects of progress towards the main goal, then the extent to which these objectives are achieved is an indicator of the extent of achievement of the main goal of Europe 2020.

If it is noticed that the five objectives of the Strategy are not achieved, and even more - if moving away from them is ascertained, then this should be a cause for serious concern since such a result probably indicates that the type of the real growth is different from the type of targeted one as indicated in the Strategy, i.e., the economic and social dynamics deviate from the overarching goal of the Strategy.

**C. If any of the above signs is noticed, monitoring should be immediately directed to the core (basic) public institutions** as the type of growth is mainly determined by the functioning of the core public institutions. This is another basic task of governance - to check the condition of these institutions, seeking an answer to the question of how these institutions influence the growth and more specifically – do they help to achieve the type of growth that is the goal of the Strategy. In particular, the task is to identify the missing institutions or dysfunctions of the existing institutions.

**D. The next important reason for possible deviations are errors made in previous governance cycles** - in the identification of risks (problems) or in creating responses to them in the course of the political process of decision-making (policy making). In brief, we need a social impact assessment of policies that were formulated during the previous governance (political) cycle.

**E. According to the latest AGS, the main challenge** for the member states is to achieve sustained economic recovery from the financial crisis. To achieve this it is necessary to identify the causes of the crisis and based on this diagnosis to lay down adequate anti-crisis measures. If the causes of the crisis are not established, it cannot be certain that the measures for getting out of it are really effective.

Comparing the expected components of the AGS with the previously indicated basic structure of the document, it is immediately notice that the expected components are missing. In other words, the conclusion that can be drawn is that the structure of the AGS is deformed. This finding immediately puts the following questions: Does the AGS apprehend the main aspects of the economic and social realities? Does it convert these realities into a subject of close monitoring?

## **2.4. What does the AGS leave out - main features of the European socio-economic realities?**

AGS should establish a realistic picture of the economic situation of the EU, so that based on

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<sup>1</sup> As in the mentioned EU documents there is no specific and clear explanation for the targeted type of growth ("smart, sustainable and inclusive"), let us clarify that we accept this kind of growth, as a growth that meets at least the following conditions: has a steady pace and its 'price' (resource-wise, environmental, social, etc.) tends to decrease; growth is achieved through adequate policies and institutions operating on the basis of increasing knowledge, moral values and principles of good governance; growth is inclusive - i.e. ensuring two fundamental human rights (defined by the UN): the right to growth and the right to participate in the growth, which means expanding participation in the creation and distribution of the fruits of growth, so as to improve the living conditions of all members of society.

this notion to define economic priorities, and based on the priorities to formulate policy measures to achieve the desired effects (priorities, improvements).

But does AGS establish a realistic idea of the economic and social realities?

In order to answer this question, let's look at the real situation in the EU as seen in reputable analyses of established European scientists (mainly those presented in a publication of the publishing house of the Council of Europe); documents of European civil structures - trade unions and NGOs (analyses, reports, statements, etc.)<sup>2</sup>; research results of Bulgarian scientists at the Institute for the Study of Societies and Knowledge.

Then we will compare this 'picture' with the 'picture' established in AGS.

#### 2.4.1. The Excluding Society

**The main change that many researchers observed in recent decades in the EU is a merger of economy and politics.** A number of analysts particularly emphasize this feature of the Union and the way it has occurred.<sup>3</sup> In seeking to develop an overall understanding of the relations between politics and economies Luciano Gallino wrote: "The events and history of recent decades show that the boundaries between economics and politics were not crossed by the former thanks to its own unrestrainable forces alone.... It must rather be pointed out that, from early 1980s these borders were deliberately thrown wide open to the economy by none other than politics itself, by parliamentarians and by the laws enacted by them"<sup>4</sup> ... "Therefore, rather than setting itself the objective of regulating the economy in order to adapt it to society, politics has committed itself to adapting society to the economy. Instead of protecting citizens against socio-economic insecurity, it presents itself as the last-ditch saviour for those most acutely affected. And rather than producing public goods, politics claims that it is forced to offer the economy the opportunity ... to produce them in its stead."<sup>5</sup> Claus Offe sees in this adaptation of society to the economy the emergence of fundamental similarity between capitalism and socialism<sup>6</sup>. But the same phenomenon shows another similarity - the decline of democracy.

The big problem that arises in the merger of economy and politics is that society cannot be 'inclusive', as described by the World Bank – "inclusive society has institutions, structures and processes that provide opportunities for local communities to hold their governments accountable. It also requires the participation of all groups in society, including traditionally marginalized groups ... in the decision-making processes" (we strongly recommend this reading of the authors of AGS).

Merger of economy and politics, and more precisely - when the groups that control the economy control also the political process of decision-making - other groups lose the

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<sup>2</sup> European Meeting of People experiencing Poverty Reports (annual reports, see:

<http://www.eapn.eu/en/search?searchword=PEP+meetings> )

<sup>3</sup> Gallino. L., The economic crisis as a crisis of civilization. In: Rethinking progress and ensuring d secure future for all: what we can learn from the crisis. Trends in social cohesion, N 22, Council of Europe Publishing, 2011, p. 45

<sup>4</sup> Gallino. L., The economic crisis as a crisis of civilization. In: Rethinking progress and ensuring d secure future for all: what we can learn from the crisis. Trends in social cohesion, N 22, Council of Europe Publishing, 2011, p. 45

<sup>5</sup> Gallino. L., The economic crisis as a crisis of civilization. In: Rethinking progress and ensuring d secure future for all: what we can learn from the crisis. Trends in social cohesion, N 22, Council of Europe Publishing, 2011, p. 45

<sup>6</sup> Offe, Cl., What, if anything, may we mean by "progressive" politics today? In: Rethinking progress and ensuring d secure future for all: what we can learn from the crisis. Trends in social cohesion, N 22, Council of Europe Publishing, 2011, p. 79

opportunity to participate in the decision-making.

### **2.4.2. Excluding Institutions.**

When the above-mentioned change occurs, the institutions gradually begin to function as excluding institutions. Therefore, in monitoring of social realities is important to check the way the institutions function and to identify the excluding institutions. Such monitoring is extremely important for the economy because of a long known fact - existing institutions are the most important for the success or failure of an economy. Some authors differentiate between inclusive and draining (excluding) institutions<sup>7</sup>. Inclusive institutions generate (inclusive) economic growth and prosperity; their main characteristic is participation in the decision-making process and precisely because of this characteristic, these institutions also provide a better distribution of income and wealth. And vice versa, the excluding/'draining' institutions transfer benefits, income and profits from bottom to the top. They can generate growth for a certain period, but the results of the growth are distributed in a way that blocks development. This feature deserves special attention because it is supported by other prominent researchers (who define it as 'rent-seeking') and besides, it is subject to empirical verification and huge empirical evidence is already collected.

The 'institutional reconstruction' mentioned in item 1, increased many times the 'excluding' (draining) institutions since it closed down institutions that restricted 'areas for free decisions' of the business (through deregulation) and directly expanded 'areas for free decisions' of the business (through comprehensive privatizations). Thus 'the economy' was empowered (more precisely - the groups that control the economy), but the majority of citizens was disempowered.

**AGS however does not attempt to identify adequately the main excluding institutions and thus misses a central aspect of the economic and social realities.**

### **2.4.3. Distortion of the economic dynamics - false (excluding) growth instead of authentic (inclusive) growth**

When the institutional and regulatory environment is not inclusive, it is impossible to achieve "inclusive growth" - "broad-based, shared, and contributing to social and territorial cohesion, ensuring that the benefits of growth reach all parts of society". Therefore, in the presence of excluding institutions differences (social, economic, etc.) begin to grow both within the individual countries (member states) and among the countries (within the whole European Union).

The reason is that in a deformed institutional environment, economic entities do not earn an income because of creative economic activity but because of their connections with (the influence on) the political process of decision making. The growth that is achieved is false (ostensible) because this is an economic dynamics based on redistribution of income and wealth (and therefore some economists call such growth 'rent-seeking'). This type of growth is a paradoxical phenomenon - it deteriorates the social and economic situation because in fact it is a decline, although statistical surveys report growth. In this type of growth the economic dynamics itself generates unemployment, poverty, inequality and further decline. The central aspects of false growth are:

Firstly, concentration of income and wealth through constant and politically organized redistribution of income and wealth from the lower and middle classes to the superrich.

Secondly, an important aspect of fake growth is the deep change in the structure of the

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<sup>7</sup> Acemoglu, D., J. Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, 2012, London

economy - deindustrialisation, forced and ill-proportioned development of the service sector (particularly the financial service sector) - a trend, which, although to varying degrees, affected many member states.

Thirdly, the concentration of income and wealth by false growth and its mechanisms (virtual absence of adequate legal regulation, the merger of economy and politics) enhances the trend towards deviant behaviour of economic actors (rent-seeking is intensified by strengthening the influence on policies and institutions, even higher levels of corruption, gray and black economy).

In brief, the excluding institutions by generating false growth **radically change the basic proportions in the distribution of income (including, dismantling of the European social model or its central components) and create huge inequalities, distort and block the authentic economic growth and provoke a trend towards criminalization of the economy, and the same trend affects also the political sphere because of the merger of economy and politics.**

These characteristics of the actual growth certainly do not bring it closer to the type of growth that is the objective of the Europe 2020 Strategy - "smart, sustainable and inclusive". But AGS does not identify the specific type of growth - false growth (rent-seeking), does not problematize it and does not establish a diversion from the objective of the Europe 2020 Strategy.

#### **2.4.4. Differences between Member States' Economies**

The above characteristics of the European economies and societies are not the same in all Member States. In some countries they are very pronounced, while in others - are mitigated or even missing. Therefore, there are profound differences and dividing lines in the EU (e.g. the indicated by U. Beck differences between member states - creditors and member states - debtors, between members of the Euro zone and the countries outside it, etc.). But many data show that in the EU economy there are other dividing lines - different economic zones (primary, secondary and tertiary or core, semi-periphery and periphery) formed by varying degrees of merger of economy and politics, the prevalence of excluding institutions and the scope of 'false growth'. These zones can be differentiated by a number of indicators: rate of spread of false growth (rent-seeking) in the total volume of economic activities; share of the informal and black economy (respectively - characteristics of the legal regulation and the manner of its implementation), state of the formal economy (industrial structure, respectively - structure of manufactured goods and services, growth rates, levels and dynamics of investment, technological level of production, labour productivity, quality of management, structure, according to the forms of economic organization, qualification of the labour force, forms of labour organization and control thereof, levels of earned income, etc.).

The presence of these zones shows that the opinions of "two-speed Europe" (even three) are not devoid of reason. Europe really is two or multi- speed.

This state of the European economic realities is also omitted by AGS. And this gives raise to another omission - omitted is the question whether and how the EU is achieving cohesion - social and territorial cohesion of member states.

#### **2.4.5. Efficiency of Economic Relations between Member States**

As pointed out by Frederic Lerais, AGS does not contain adequate observation of the trade and economic relations between the member states and the impact of these relations on the

economic dynamics of the member states<sup>8</sup>.

And this problem deserves special attention due to the above-mentioned profound differences and dividing lines between the national economies of the member states. Economic relations between the different zones (countries) deserve greater attention because they affect in different ways their economic dynamics. Although the Alert Mechanism Report mentions that the huge current account surpluses of Germany may have adverse effects on many other countries, this conclusion is not accompanied by an extensive analysis of the economic relations between the member states and especially - the effects on the member states of the Mediterranean. There is no objective analysis along these lines to precede, accompany or follow the remedial measures.

If the different zones and relations between the countries therein are neglected, it is not possible to monitor the influence of economic relations on the state and development of the countries in the various zones, and in particular, whether these relations contribute to increase or decrease the disparities between the members of the Union. Unknown (even taboo) remains the question of mutual benefit or unprofitableness of economic relations between the member states, and thus, there can be no influence to reduce the disparities between the countries in the different zones - the fact remains that the differences are not on the decrease despite the declared intentions and the spending of significant funds for this purpose.

#### **2.4.6. Reasons for the Crisis**

The crisis is a central aspect of the European economic and social realities, but exactly this aspect has not been subjected to adequate analytical observation.

And this gap is a particularly serious weakness of AGS. Without adequate diagnosis of the causes no one can be certain that the priorities and the relevant measures really tackle the main causes of the crisis. Then the joyful announcement of the "turning point" in the crisis looks like a painkiller.

This omission of AGS is even odder, given that a number of civil society structures have long requested precise clarification of the causes of the crisis, and more specifically - an analysis of the links between policies and the crisis dynamics. In 2014, students in Economics from 19 countries published a manifesto and requested investigation of the causes of the crisis. Civil requests and protests of the students are hardly unfounded. Rather the European Commission (AGS and the semester) is stubbornly avoiding an adequate analysis of the causes of the crisis.

That is why there is no evidence of the sustainability of overcoming the crisis. It is particularly important that there is no differentiated analysis of successful and failed countries in controlling the crisis; success models are not identified and systematized and are not presented as good practices and there are no recommendations for their use. Neither is addressed the loss of EU positions to those countries (outside the EU) that do better in times of crisis and manage to maintain a higher growth rates.

All this deeply compromises the important message of AGS that Europe is starting to emerge from the recession. The message is based on the fact that countries like Ireland and Spain completed their 'Troika' programs. Highlighting this success of the implemented policies (and indirectly confirming their correctness) does not seem very convincing in the absence of adequate analysis of the causes of the crisis.

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<sup>8</sup> Lerais, Frederic, Overview of CSR, Report presented at the 6-th Annual TURI conference, 23-24 June, 2014, Sofia.

#### **2.4.7. Social Impact Assessment**

AGS lacks and convincing analysis based on adequate methodology (participatory conducted social impact assessment) to show how exactly the policy measures (priorities and CSRs defined by the Commission) influence the crisis tendencies and transform them into processes of growth and development.

More examples can be given that show that AGS ‘misses’ to notice key aspects of the economic and social realities, and because of these omissions the picture of the socio-economic realities created by AGS is highly deformed, distorted and does not focus the attention on issues which undoubtedly deserve paramount attention and analysis. Therefore, the members of the Alliance cannot accept the statement of the Commission’s Communication that “...The Annual Growth Survey (AGS) takes stock of the economic and social situation in Europe” and that “This year's guidance is set against the background of several significant economic and policy developments”. In fact, many of the "significant economic and policy developments" have not been identified by the AGS and the picture that the document creates does not inspire trust.

As AGS misses central segments of the economic realities, the document miss also a number of problems (risks) arising from the real economic and political situation in the Union.

This feature of AGS raises an important question: if AGS does not clearly identify the situation and challenges, how these gaps affect the setting of priorities and recommended actions? In more precise wording, the question is whether necessary priorities and key actions (policy measures) have been missed as a result of the distorted picture of the reality?

Actually, the answer is clear - if contact with reality is impaired, it is hardly possible to construct a good set of policy actions as reactions to realities. Given the above, it can be said that if excluding institutions and false growth (as well as other specified threats - above all - distorted distribution of income and wealth) have not been identified, it is unlikely adequate policy responses (priority measures) to be constructed against them.

The impaired contact with realities (the distorted notion of the realities) leads to a distortion of the set of policy measures that AGS offers - as was the opinion of the Alliance that many necessary steps are missing, while others are irrelevant to the objectives of Europe 2020 and of AGS itself.

#### **2.5. Do the Priorities Ensure Implementation of the Europe 2020 Strategy?**

The impaired contact with realities (the distorted notion of the realities) distorts also the priorities set by AGS. If AGS contained the aforementioned central aspects of the European economic realities, they would probably have aimed at identifying paramount risks and laying down other priorities to address those risks.

For example, the identification of the false economic growth would have directed attention to the need to change the type of growth, i.e. real transition to ‘smart, sustainable and inclusive growth’, and more specifically - to pro-development, inclusive (pro-societal) growth.

On the other hand, to establish the need for such a transition would shift attention to the identification of key excluding institutions, policies and other mechanisms that form the type of growth and the need of their transformation into inclusive institutions would have become notable.

The identification of changes in the basic proportions of income distribution, emerging inequalities and their consequences, would have focused the attention to measures to reduce inequalities by appropriate amendments to the taxation systems and/ or - recovery of the

reduced social protection systems and citizens' social rights, as well as looking for other instruments (guaranteed minimum income, unconditional basic income, etc.).

And searching for the fundamental reasons for any deviation could identify another fundamental risk - the deterioration of the quality of governance, reduction of democracy and therefore - the need for rapid restoration of democracy as a central aspect of the 'inclusive' society. As the Panel of UEB points out, **AGS failed to reach an understanding that it takes more than such Growth Survey. Assessment and rethinking is needed with regard of the institutions and policies to emerge from the crisis, the pros and cons of the measures currently applied**, including measures implemented by the "Troika" to bring countries out of the debt crisis (by the way - again without sufficient clarity about the way in which the debt was incurred).

**We find nothing of the kind in the above priorities of AGS. And thus the important fact arises - due to the neglect of the above realities and the associated risks (problems), AGS failed to answer some other questions:**

Firstly, does the type of economic growth in a considerable part of the European economies deviate significantly from the type of economic growth targeted by the Europe 2020 Strategy? How is the type of growth in the EU different from the type of the growth in the United States, BRICS? Is it not high time for a comparative assessment of the growth and development models (an issue that is closely related to the causes of the crisis)?

Secondly, is achievement of the social objectives set out in the 2020 Strategy questioned since in the present structure and dynamics (growth type), the economies of the member states are not able to achieve them? We find special grounds for such a question in the above-indicated degradation of some of the indicators for these objectives.

Thirdly, if achievement of the officially stated objectives on the European Semester put to serious doubt, do policies face this problem?

## **2.6. Summarized Conclusions Regarding AGS**

Summarizing these characteristics of the AGS, it could be said that according to members of the Alliance (Info Centre) the detailed review of AGS shows inconsistency; lack of a clear picture of the economic and social realities; support for opposing theses, a discrepancy between the stated goals and results achieved; policy measures that contradict each other; almost complete subordination of social developments to the financial and macroeconomic imbalances and implicit abdication from socially effective management of the social processes.

**Firstly, AGS does not indicate the grounds on which the identified 'economic and policy developments' can really be considered as 'significant'.** Given developments can be considered significant only if they detect central, key aspects of economic realities and if the perceived aspects are crucial to improving the economic situation and the lives of the European citizens. However, **AGS does not provide convincing arguments** that the established 'developments' are exactly such. Therefore, the conclusion remains that the economic and political developments have been identified as significant, mainly on the subjective judgment of the Commission.

**Secondly, serious doubts arise that the established by AGS 'economic and policy developments' are really significant.** Doubts arise from the comparison between the established by AGS 'significant economic and policy developments' with the above fundamental aspects (only part thereof) of socio-economic and political realities in the EU - the two pictures are completely different. The image created by AGS is quite different from

the notion created in multiple analyses by respected scientists, observations of civil structures and opinions and judgments of the main categories of "losers" - representatives of the main target groups in the EU (see for example the reports from the annual meetings of the poor in Brussels). It should be particularly noted that the notion of economic and political realities in the Union - and especially - of the risks outlined by scientists and civil structures, is not contained in the alert mechanism developed by the Commission.

**Thirdly**, the above difference gives rise to another one – **the identified risks and respectively the priorities laid down are completely different**. In fact, careful analytical comparison of the two sets of priorities indicates that they are not only different, but to a large extent opposite.

**Fourthly**, there is no analytical component in AGS to show the link between the specified priorities and the established in the survey ‘significant economic and policy developments’; how exactly the specified priorities have been derived from the established ‘significant economic and policy developments’. This gap raises the question whether the priorities have been analytically derived from ‘significant economic and policy developments’ or simply reflect the opinion of the Commission. Doubts on this matter are reinforced by the fact that for the last two years AGS has identified various ‘significant economic and policy developments, but maintains the same five main priorities.

**All these characteristics of AGS raise the question: Does AGS perform its primary purpose - to ensure the implementation of the Europe 2020 Strategy by steering the European economies to the objectives of the Strategy?**

**The answer is - hardly.**

**It is important to reiterate that the above weaknesses of AGS, respectively of the economic and political dynamics in the European Union are not a ‘discovery’ of the Bulgarian alliance. Numerous scientific analyses highlight the above specificities and their consequences. Moreover, a number of European institutions also pay attention to such weaknesses.** For example, at the EPSCO Council of March 2014, the Ministers of employment and social issues emphasized that "the economic downturn has created pressure on our overall strategy and the European social fabric.". It is stated that the social impact of the crisis, with mass unemployment and high levels of poverty, undermines the foundations of social cohesion and affect the public confidence in the European project, etc.

The observation regarding the significant gaps in AGS is confirmed by other sources. The conclusion of the Alliance can be supported, for example, by a comparison between iAGS (Independent Annual Growth Survey, 2013) performed by OFCE (French Observatory of the Economic Situation), ECLM (Economic Council of the Labour Movement) and the IMK (Institute of Macroeconomic Policy)<sup>9</sup>. We are not going to quote here all the ‘discrepancies’ between AGS of the Commission and iAGS of the French institutions, but we should note that while AGS attaches great importance to austerity measures, in the independent monitoring these measures are seen as SDA (Self-defeating austerity).

Similar appreciations of AGS also show through in the work of European institutions. During EPSCO of March 2014 the Ministers explicitly emphasized the lack of progress on the targets, especially the targets with regard to poverty. Another important point that the Ministers highlighted was the need to improve the governance of the Europe 2020 Strategy and to improve coordination between the financial, economic and social priorities. The last statement apparently reflects certain doubts in the system of laying down priorities. Similar signs can be found also in the evaluations of other European institutions.

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<sup>9</sup> independent Annual Growth Survey, First Report iAGS 2013

It is even more interesting that important fragments of the omitted in AGS economic and social realities can be found in documents of the European Commission. For example, the Communication of the European Commission: Revisiting the Europe 2020 Strategy for Smart, Sustainable and Inclusive Growth indicates poor achievement of many of the goals of the Strategy, recognizing that poverty and social exclusion increased from 114 million in 2009 to 124 million in 2012. It is also stressed that poverty may remain around 100 million by 2020, and as major problems are indicated increase of material deprivation and jobless households. It is concluded that "the crisis has demonstrated the need for effective social protection systems" ... but among the priorities and recommendations strong and specific proposal to strengthen the eroded social protection systems cannot be found. As far as any general "hints" on the subject can be found, they are clearly dominated by the priorities "financial (fiscal) consolidation" and "competitiveness".

This raises other questions - what is the mechanism of developing AGS and why does it allow such weaknesses?; what actually are the sources based on which the provided growth survey and its stated priorities are designed?; what is the nature of these sources - adequate situation analyses of societies, their economies and their social problems or analyses of finance and banking systems? And what are actually the main landmarks, which guide the work on AGS?

Similar questions arise also in the review of the country specific recommendations (CSR).

## **II. COUNTRY SPECIFIC RECOMMENDATIONS (CSR)**

The Recommendations for Bulgaria and the EC evaluation of the progress of the country in the implementation of the recommendations are presented in Appendix 1.

L. Mitov – a chief economist of Institute for International Finances emphasizes that “only external pressure can generate growth in Bulgaria”. Our analysis below (see p. 5.1.D) describing the limited capacity of the country to achieve authentic and significant growth, supports this opinion. That is why the Alliance considers CSRs as extremely important tool for “pressure” and achieving development. The question is do CSRs play such role; do they respond to the expectations of the Alliance?

### **1. Comments and opinions of the members of the Alliance on the recommendations made**

#### **Recommendation 1:**

The findings and recommendation of the Commission on the shady sector are regarded reasonable. Restriction of this sector (but not self-employment as an alternative to rising unemployment) is really a key factor to increase budget revenues and reduce abuses. For the same reasons it is necessary to set as a priority the restriction of social security fraud. Criminalization of the act of evasion of social security contributions is certainly a step in the right direction. It is necessary to revise the procedure for registration of companies which currently allows easy registration of companies by persons who lack the capacity and financial resources for business. It is absolutely necessary and to encourage social enterprises, cooperatives and other structures of the solidarity economy in which Bulgaria has strong traditions.

#### **Recommendation 2:**

Members of the Alliance do not accept this recommendation unconditionally - mainly increasing the statutory age and length of service for retirement. Especially CITUB has asked to stop the increase of age and service statutory age and length of service for retirement; the

social partners to reconsider the measures in the National Agreement of the end of 2010 and to develop a new set of measures for further development of the pension reform. Moreover, there are objections (CITUB) against restriction of early retirement as an end in itself; furthermore it is intended only for employees in the industrial sector. The implementation of this measure should be directed mainly to the public sector – the systems of MoD, MoI, etc., where it is necessary to take measures to extend working life, respectively, to introduce age requirement for entitlement to pension for all employees. Instead, the first and very tentative step regarding the employed in the army was repealed. The Bulgarian Women's Lobby also highlights this fact. The structures of CL *Podkrepa* in the sector add that reducing to a common denominator of all employees of the Ministry of Interior and Ministry of Defense is not right. Careful study in which sectors it is admissible is needed. It should also be recognized that in recent years working conditions have deteriorated significantly, especially in the structures of the Ministry of Interior, with a dedicated policy on revocation of benefits, health care, etc. of the employees and members of their families.

CITUB recommends informing the EC that the official data of persons entitled to early retirement (with years of service in dangerous and hazardous industries which allow them early retirement) who retired in 2012 indicates an average age of 61.9 years and in 2013 - 62.4 years. Aligning the retirement age of women to that of men will be implemented, but this should be smooth enough and forth in time, because from the start of the reform until now, for women there was no 'zero' year in the requirements for retirement, except for the present year that keeps the requirements at the increased level of 2013.

LC Podkrepa considers that the EC has not understood well the Bulgarian pension system and in this sense, recommendations for increasing the retirement age and aligning the retirement age of women to that of men are incorrect. According to Art. 68, paragraph 3 of the Social Insurance Code, already in 2000 the retirement age for men and women in Bulgaria was made uniform and was set as one of the highest retirement ages in the EU - 65 years; since the beginning of 2012 this age gradually grows to reach 67 years for men and women. If the EC recommendation to increase the age and years of service for retirement and to align the retirement age of women to that of men refers to the possibility of early retirement of workers working in normal conditions, CL Podkrepa definitely do not accept it because of the following:

- from 2000 the flexible retirement age for men has increased gradually from 60 to 63 years and 8 months, and years of pensionable service – from 25 years to 37 years and 8 months.
- from 2000 the retirement age for women increased gradually from 55 to 60 years and 8 months, and years of pensionable service – from 20 years to 34 years and 8 months.
- no other country in the EU has achieved in such a short historical period such a dramatic increase in both the age and years of service, especially for women.
- the option for early flexible retirement for workers working in normal conditions exists in almost all member states. More flexible retirement conditions enable people to choose depending on their health and economic situation. Not all people have the same physical capabilities and they should have a choice because tightening of retirement conditions may prove murderous for them.

LC Podkrepa does not accept the recommendation for linking the statutory retirement age to life expectancy because this mechanism does not create clear incentives for continued participation of people in the insurance system and because this is changing the 'rules of the game' in the course of the game.

It is necessary to take into account not only the life expectancy, but rather the length of productive working life, which are two different things and suggest different types of observations for correct identification. Given also the levels of employment and different standards of living in the Member States.

Members of the Alliance, who discuss this recommendation, unanimously stress that a much more significant problem for Bulgaria is the adequacy of pensions and not the retirement age.

**Recommendation 3 is accepted but with some remarks.**

For CITUB the main problem stems from the fact that the role of budgetary funds for implementation of these measures is underestimated and is heavily relied on EU funds. It was reminded that the proposal was the National Action Plan on Employment to be financed by BGN 145 million from budget of 2014 and not by the planned BGN 73 million. For UEB the main weakness is the lack of effective measures to address the precarious employment and creation of quality jobs and insufficient counteraction to the phenomenon of 'permanently discouraged'.

**Directly or by implication, the participants accept recommendations 4, 5, 6 and 7. Regarding recommendation 7** the vital importance of EU funds, especially in times of crisis was confirmed. Along with this, participants indicate that regardless of how important it is to enhance the degree of absorption, there are other major problems with the EF utilization which in the Recommendation are missing.

UEB experts put special emphasis on the fundamentally right position to remove obstacles before transnational labour mobility. The experts expressed support for the package of measures relating to deepening the financial and economic integration/ strengthening the powers of the ECB, including along the line of supervision of the national banking systems/ as well as for the recommendation of harmonizing taxation systems and increasing the efficiency of the tax administrations.

Along with this, according to the CITUB and the UEB panel, indicative of the AGS orientation is that the priorities of the Commission are set out in detail with regard to the financial and banking system, but the main issue was omitted: early identification of risks of destabilization. Other priorities - especially with regard to pension system reforms, labour markets, administrative structures - are laid down in general, wishful plan.

**2. The last document of the Commission of 02.06.2014 was the Council Recommendation on the NRP for Bulgaria for 2014, containing the new country-specific recommendations.**

**Regarding recommendation 1:** Again the focus is on tight fiscal policy, besides, not within the Maastricht criteria, but as required by the Public Finance Act and achievement of the medium-term budget forecast, i.e. a deficit of 1.1% to 2016 (another 'obsession'). Despite the reported by the government measures in the tax policy /reverse VAT accrual and increased control over the movement of goods with high fiscal risk/ tax collection is a major problem. If the improvement concerns mainly indirect taxes - there is no mention of a change in policy on direct taxes. If the trend of huge preponderance of revenue from indirect taxes compared to direct taxes in the budget continues, this means - nothing good for the poor and middle strata of the population.

**Regarding recommendation 2:** Here the criticism of the Commission is focused on the delay of the pension reform. CITUB does not agree to quick and painful reforms in this area, given that in the most economically developed countries in the EU these reforms were either significantly delayed or deferred in time. As mentioned above, from 2000 until now Bulgaria has undertaken and implemented too serious reforms in the pension system. Only the

requirements for years of service were increased dramatically from 25 years to 37 years and 4 months for men and from 20 to 34 years and 4 months for women and retirement age respectively - from 60 to 63.8 and from 55 to 60.8 years. There is hardly another country that has implemented such changes. LC Podkrepa emphasizes that today's young people start work later in life than their parents and at the same time the latter have to work until later, being competition of their children.

The issue of disability pensions has at least two sides – on one hand to limit the cases of wrongful obtaining of these, but on the other hand - to alleviate procedurally those who are actually affected and who are often subjected to humiliation. Of course, there is a need for legislative amendment regarding the illogical practice to pay a quarter of disability pension to persons who receive full pension for service and age. But such a decision is rather difficult and sensitive for purely political reasons. It should also have to be accompanied by new policies regarding people with disabilities and will require significant financial resources. LC Podkrepa explicitly states the need to increase the amount of disability pensions.

In health care, despite the adopted Health Strategy for 2014-2020, the CITUB found that there is no political and public consensus on the direction of reforms. NHIF has a big and worsening deficit; hospital financing is non-transparent, and from that suffer the quality and access to health services. Annual deficits in the system are of the order of BGN several hundred million, mainly in hospital care and for medications, but there is no political will to abolish the legal text that provides for automatic binding commitments of NHIF to finance the emerging new and new private hospitals. The commercial logic, which the operation of all actors in health care is based on, does not allow enough effective control and eradication of abuse.

**Regarding recommendation 3:** The EC reproduces again the recommendation for “comprehensive review of minimum thresholds for social security contributions so as to make sure that the system does not price the low-skilled out of the labour market. Establish, in consultation with social partners, transparent guidelines for the adjustment of the statutory minimum wages taking into account the impact on employment and competitiveness”. The recommendation is repeated despite explicit statements of the two representative trade unions that reject it entirely. This reaction of the trade unions is based on analysis of data of NSI and the Employment Agency on unemployment after the introduction of the minimum thresholds. Expert opinions of CITUB, LC Podkrepa and research of the Ministry of Finance showed no negative effect of increasing the minimum thresholds for social security contributions and the minimum wage on the employment of low-skilled workers /see summary conclusions of the analysis of MF/.

Association "Solidarity Bulgaria" also cannot agree with the following conclusions:

- The minimum threshold for payment of social security contributions could prevent low-skilled individuals to participate fully in the formal economy.
- The statutory amount of the minimum wage was increased significantly in 2013, which could have a negative impact on employment.

Not single evidence has been brought in support of these statements and concerns. A review of minimum social security thresholds indicates that 50% of the minimum thresholds for occupations that do not require special qualification /referred to by AGS/ are in the amount of the minimum wage. Only for 15 economic sectors the minimum social security thresholds are over BGN 400 /€ 200/. One of them is "Collection of hazardous waste; Treatment and

disposal of hazardous waste"<sup>10</sup>. Fair remuneration and related social security contributions should take into account not only the specific qualifications but also the harmful effects of the labour process for the workers' health.

Data referred to in the In-depth Review of Bulgaria from 2013 within the European Semester also proves the unsoundness of concerns about raising the cost of low-skilled labour. Figure 49 of the document shows weak correlation between the change in employment and the increase of thresholds that should not give grounds for such explicit guidelines for reduction of the minimum social security thresholds. This is a pressure that lasts for years unrestrained by the data.

The Association also does not accept the suggestions of the negative effects of increased minimum wages on employment. Again these are unsubstantiated concerns. "Solidarity Bulgaria" reminds that according to the same In-depth Review, salaries in Bulgaria are among the lowest in the entire European Union. On page 23 is written: "The hourly labour costs in Bulgaria are still only EUR 3,5 - 15% of the EU average of EUR 23,1". Wages seven times lower can worry only employers who are looking to pay nothing for the work done.

Therefore, the concerns expressed by the European Commission only arouse bewilderment. The identification of such risks gives unfounded arguments in the social dialogue between business and labour to the detriment of low-paid workers and employees, and intensifies the social divide between Bulgaria and other EU member states. This is also one of the reasons for emigration to Western Europe.

It appears that such recommendations are strongly influenced by some Bulgarian sources - position of employers' organizations, suggestions of neoliberal think tanks, etc.

**Regarding recommendation 4:** It is aimed at reforms to improve education, in particular by linking it on the one hand to the labour market and on the other, within the social policy, to the payment of child allowance. The recommendation binds education with current state of the business and child allowances. Such disciplining approach misses many important current developments: e.g., low share of public expenditure for education; closing down schools in small populated areas; distorted labour market with specific occupational niches; increasing price and strong educational inequalities importance of education for building social intelligence, etc. The question of how poverty affects low and poor level of education has never been asked. In fact, there is hardly any evidence that such a narrow approach to education can contribute significantly to its improvement. LC Podkrepa emphasizes that the funding system for universities has weaknesses that contribute to the deterioration of the quality of education. The syndicate proposed to introduce socio-economic education in primary and secondary education in order to raise awareness of future workers /employees who are among the most vulnerable groups on the labour market, especially in terms of their rights, discriminatory practices, etc. Again LC Podkrepa proposes the business to engage in higher education in the form of scholarships to prepare staff that is in demand while limiting the reverse funding from the state to the business for financing of short-term training programs that are beneficial to the employers but do not lead to a real improvement of the state of the young people they cover.

**Regarding recommendation 5:** The recommendation reiterates well known statements for improving the business environment, in particular for SMEs particularly by

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<sup>10</sup> Minimum insurable earnings by major economic activities and qualification groups of occupations - 2014  
[www.nap.bg/document?id=4428](http://www.nap.bg/document?id=4428)

promoting e-government, improving the public procurement system, enhancing the quality and independence of the judiciary and step up the fight against corruption. At the same time, as it is known, the framework itself for absorption of the Structural Funds in different areas is aimed at small number of strong players, while the huge inequalities (meaning society with high hierarchy) are an obstacle both to the improvement of the judicial system and the fight against corruption.

**Regarding recommendation 6:** The Recommendation refers to the positive significance of the liberalization of the energy sector. It does not regard the enormous level of energy poverty in the country, nor the available in many countries data on the link between liberalization and rising prices for households and businesses. The problem of the unfavourable for the country (and anti-market) long-term agreements concluded with companies, producers of electricity, is missing. A Particular omission is one specific to Bulgaria problem - the rapid increase in the average electricity price due to the extremely rapid growth of the production of 'green energy', which is much more expensive than the traditionally produced energy and which is compulsory bought up.

### **3. Conclusions of the Monitoring of Bulgaria that are Particularly Disputable**

Participants in the Alliance and other civil structures indicate that AGS and the recommendations have important positive aspects, but also point out a number of weaknesses, omissions and contradictions<sup>11</sup>. For example, in the monitoring is recognized that unemployment has reached unprecedented levels, but against this background employment is seen as the only means of reducing poverty; the problem of the working poor is not identified; there is no emphasis on the creation of quality jobs. Instead of all this, the emphasis is put on existing policy measures - active labour market policies (with proven inefficiency) and especially - on the Youth Guarantee. Child poverty is highlighted. Active inclusion is mentioned in quite narrow frames - mainly related to the famous thesis of 'one stop shop'. Thus the notion of active labour market policies is transformed (reduced) to policies of the 'activation' of the unemployed and activation in turn is achieved primarily by reducing various social payments - the argument for such measures being that social payments make the unemployed 'passive' (restriction of payments 'activates' them).

Although significant attention has been devoted to health care, out of sight remain the great failure of reforms in healthcare, the issues of quality of the social protection system, quality of social payments and services, as well as the progress made in maintaining adequate minimum income<sup>12</sup>.

Special objections provoke the following points:

CITUB, for example, objects to the conclusion that: unoptimally functioning labour market reduces the ability of the economy to adapt and holds back its potential for growth.

The objection emphasizes that: shrinking of employment to an extent greater than the decline in GDP rather argues for an increase of the indicator for labour productivity; faster response of the labour market to crisis trends; not very strong relation between the labour market and dynamics of the GDP. The larger decline in employment in Bulgaria (from 2008 on) which is more acute than in other countries with a similar decline in production is probably due to other identified reasons.

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<sup>11</sup> The EAPN Secretariat prepared a Press Release following the launch, based on a letter sent to the General Affairs Council and the European Council in December, and has prepared a short response, which was discussed with members at the EU ISG meeting in February. This highlights positive areas that may be useful to quote, as well as missed opportunities and key Recommendations.

<sup>12</sup> The Press Release of EAPN Secretariat.

Another conclusion that gives rise to disagreement is that unemployment is the main cause of poverty in Bulgaria, therefore the broad-based recovery of the labour market is particularly important.

The objection in this regard is that unemployment is not the only cause of poverty. In 2008, unemployment was 5.6%, and the relative share of the poor according to Eurostat data was higher than the present one. There is also a significant share of working poor. This means that significant impact on the level of poverty in the country have a number of other factors:

- low efficiency of social transfers - their effect on reducing the level of poverty is only 4 percentage points, while the average for Europe is 7 - 8 percentage points, and for some countries - even exceeding 10%;
- inadequate pension amount as a replacement income that automatically puts 70% of the retired people at risk of poverty;
- high risk of 'secondary poverty' because of unreformed and low efficiency social sectors; poor social security does not preclude the occurrence of unpredictable shocks and insolvency of the households;
- generally low wages - inadequate for the contribution of employees in the generation of GDP and as consequence of the policy of suppression of labour income with a view to greater 'competitiveness';
- high price level of food products, leading to a high share of food expenditure in the total household expenditure, limits other expenses and does not allow improving the life standard of the population.

Actually Eurostat provides very eloquent data on poverty by composite indicators, and for Bulgaria they show:

✓ High level of monetary poverty, assessed based on the relative method. This fact means that the differentiation and polarization of incomes here is much stronger than in the other member states.

✓ Extremely wide range of people who cannot meet their basic needs related to not only to their everyday life, recreation, but also food in the households. The reason for this is undoubtedly the lower nominal income of the population.

✓ Relatively high work intensity in households compared to other European countries. However it cannot compensate for the low living standard, therefore the risk of poverty and social exclusion is the highest among the EU-28. Both the employed and the self-employed are not insured against poverty.

Another issue of disagreement is the statement that the increase in the minimum wage risks to exclude low-skilled labour from the labour market, more particularly, it is said that in the recent years the minimum remuneration in the form of minimum wage and especially the thresholds of social security contributions have significantly increased, and this limits the possibilities of finding work for low skilled labour.

CITUB rejects the existence of such a negative correlation. The trade unions produce data showing that the declining employment rate of low skilled workers after 2008 is due to dismissal of this workforce times of crisis and not because of the increase in the minimum wage that occurred only in September 2011.

Therefore CITUB defined as strange the comments and recommendations of the European Council / SWD (2012) 302final / of 30.5.2012 regarding the implementation of minimum social security income - for example, doubts that *the minimum social security income may discourage declared work* (Recommendation № 3) or the vague insistence "*to strike a balance between the need to decrease undeclared work and the need to ensure that the*

*recruitment of low skilled workers is not too expensive"* (item 12 of the preamble).

The trade unions stress that it is definitely proven (including in official EU documents) that Bulgaria ranks last in the EU in labour income and first - in poverty level. The amount of the minimum wage is below the level of wages in some rural areas of China and sometimes does not even reach the official poverty line, valid for Bulgaria. The country ranks the third among the highest levels of inequality in the EU. For this reason, they consider unjustified the statement that in Bulgaria recruitment of any workers is expensive, not just low skilled, for whom in 99 percent of sectors the minimum social security income is equal to the national minimum wage.

One of the proofs that in Bulgaria the labour cost is not a barrier for foreign investors is that there has been no case of withdrawal of a strategic investor because of high wages of employees. Barriers, which prevent foreign (and domestic) investors, are quite different. The trade unions also remind that within Europe 2020 the country has committed to reduce number of the poor in the population by 260 000 people, which requires also a national ambition and efforts with regard to labour income.

For the above objections, the Confederation of Independent Trade Unions in Bulgaria said in a letter to the Ministry of Finance that not only they would not support repeal of the application of minimum social security income, but with all legal means would counteract such act.

The Confederation of Labour "Podkrepa" not only does not support the repeal the minimum social security thresholds, but has repeatedly insisted the agreed thresholds to be considered minimum wages by major activities and branches for different staff categories, while maintaining the setting of minimum wage for the country.

According to CL "Podkrepa", employment is not the main issue; it is rather the broken link between real income received from labour and the regulatory requirement for social security contributions on amounts that are not necessarily received.

#### **4. Poor (and counterproductive) Conclusions and Recommendations**

CITUB, for example, does not share the Commission's concerns that in the absence of reforms, the growth of labour costs (driven by wage pressures and economic recovery) can reach again extreme values in the medium term, when the economy goes up and the labour market has stabilized. Experts of the trade unions point out that in the current period the growth of the index is mainly due to the restructuring of employment and decreasing number of employees (particularly low paid) as a result of which the labour productivity over the past 3 years grew annually by 5.4-5.5%. Hence the recommendation to restrict the growth of labour costs is hardly a justified and productive.

#### **5. General evaluation of CSR**

The quality of monitoring of Bulgaria can be judged by the answers to the same questions that were raised regarding the AGS:

1. To what extent the specified documents create adequate (realistic, complete) notion of the economic and social realities in the country?;
2. To what extent (based on the notion) the most important risks that carry especially big threats to Bulgarian citizens and the society are actually identified?;
3. To what extent the defined priorities and measures are effective in neutralizing the main threats identified?

4. To what extent the monitoring is democratic and based on and broad participation?

### **5.1. What is missing in the monitoring of Bulgaria?**

UEB experts emphasize that for the monitoring of Bulgaria is valid the issue that was mentioned in relation to AGS - strong detachment from the real situation. Assessments are based on inertially accumulated impressions or use of specific, sided analyses and unreliable data. Series of examples can be brought in support of this impression.

#### **A) Economic relations with other member states.**

The finding in connection with AGS that there was no insight into the economic interactions between the member states applies also to Bulgaria, which sustainably takes place in the tertiary (peripheral) zone of the European economy. Such a position of the national economy inevitably influences - and in a radical way - the effects (in particular – the benefits which the country derives) of its trade and economic relations within the European Union. A number of signs indicate that such a country is becoming a ‘donor’ of at least some its economic partners. In an analysis of the Ministry of Finance from October 2012 /"Competitiveness of the Bulgarian Business" - p. 3 / is said that "The share of high-tech sectors in total exports is very limited." Fig. 2 of the same document fully confirms that exports consist mainly of precious stones and metals, plant products and base metals. Raw materials that do not require skilled labour and exporting them for further processing deprive us of the added value of the final product. Vehicles, machinery and chemical industry have the lowest index.

Not accidentally the BIA raised the issue that national income is exported from Bulgaria. Therefore, the neglect of this topic (in particular - monitoring the ‘value added chains’ in the economic exchange between the member states) in AGS is really amazing. Currently, the Bulgarian economy not only suffers losses from unprofitable contracts with foreign companies (according to some data, from bad concessions the country is losing nearly a billion a year), but also key economic problems of the country - mainly in the field of energy - are subject to unprecedented interventions by ambassadors (7 in total) of other member states. Unanswered remains the question why these ambassadors are so deeply interested in the energy sector in Bulgaria.

Various factors contributed to this position of Bulgaria in the system of the European economy: adverse conditions which were agreed upon its European integration; corruption (reason for unprofitable contracts with foreign companies operating in the country, and turning Bulgaria into a net donor of these companies) and others, some of which are given below, because they are very important, but are not reflected in CSR.

#### **B) Specific structure of the economy.**

Due to the experienced profound de-industrialization, the structure of the Bulgarian economy has changed radically. Now the formal structure of the Bulgarian economy is dominated by construction, tourism, services, agriculture and other sectors where the technological level, labour productivity and added value are relatively low; most branches are dominated by large economic structures, the forms of work organization and the control thereof are primitive, labour productivity and labour costs are the lowest in the EU. Besides the deformed branch structure, significant deformations are noticed within the different branches - for example, deformation of the structure of agriculture - both in terms of production (producing only production that allows a high degree of mechanization and minimum labour costs) and in terms of the forms of the business organization.

#### **C) The fundamental problem of society and the economy**

Despite the institutional and political changes, the new institutions and policies reproduced the fundamental problem of the previous system - the merger of economy and politics. The definition of this merger as corruption is misleading because the merger of economy and politics is far worse than corruption - it is a central characteristic of society and the mechanism, which forms the mode in which the economy operates.

Alliance members have often pointed out the dangers of the said merger, in particular - the subordination of the economy and finance to political objectives. In relation to the crisis, they proposed discussion of the dangers posed by such merger, but found little understanding.

Right now in Bulgaria there are plenty of excluding institutions that distort the distribution of income and contributing to 'rent-seeking' (concentration of income, generation of inequality and poverty). For example, (as stated by the UEB Panel) banks in Bulgaria /most of them foreign/ *have won privileged position in setting interest rates (2-3 times above the European average) and have the right to seize the property of debtors out of court /art. 417, CPC/, which is contrary to the European directives.* In fact, more examples can be given - starting from the institution of private enforcement agents, through the tax system, regulation of the banking system and the functioning of the banks and ending with the European Structural Funds and their regulation (this problem is discussed hereunder).

#### **D) Large share of the gray and black economy**

Due to the above mentioned reasons (mainly - the trend towards criminalization) the share of the gray and black economy is very high - probably one of the highest in the EU. Data shows a high proportion of turnover from prostitution, drug trafficking, smuggling, money laundering and other deviant economic activities. Due to the false growth, the economic dynamics is highly dependent on 'external' revenues - from EF, income of Bulgarians working abroad, while in domestic resources - a key role plays the low cost of labour in the country (big and growing share of the working poor).

#### **E) Low and declining capacity to achieve authentic growth.**

These characteristics of the Bulgarian society and economy (merger of economy and politics, the regulatory vacuum, dysfunctions of institutions and the trend towards criminalization of economic activities) do not only limit the authentic, creative growth that can provide development (improvements for all or at least for most of population) but also reduce the capacity to achieve such growth in the future. But namely these characteristics of the Bulgarian society are closely connected with specific groups interests (the way they perceive their interests) and these groups maintain the actual situation and block the achievement of authentic growth. That is why Lyubomir Mitov, the chief economist at the Institute of International Finance, said that "only external pressure can return Bulgaria on the track to growth".<sup>13</sup> As an example of the above described problem can be stated that the availability of good computer professionals in the country does not result in prosperous companies in the field of information technology, but produces another effect - some of the professionals are involved in unproductive and/or criminal activities (the country ranks high in cybercrime in Europe).

Thus the prospects of the economy worsen and a picture emerges of not only criminalized but a fading economy. An economic forecast suggests three scenarios according to which

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<sup>13</sup> This situation is not unique. A remarkable scientist (Al. Gershenkron) identified similar situation in the first half of 20<sup>th</sup> century and defined it as "constricted development". Several years ago Polish sociologist (A. Zibertowicz) identified similar situation and groups in Poland and called these groups "Anti Development Interests Groups).

Bulgaria can reach the average European level: in 2050 (if the average annual growth rate is about 4%); in 2030 (if the growth rate is 6%); in 2020 (if the average annual growth rate is 8%).

Current economic policies combined with the way economy of the country is embedded in the overall European economy, stabilize this state of the Bulgarian economy and significantly reduce the possibilities to achieve substantial, authentic economic growth and development. Bulgarian companies will hardly be able to develop industries to compete successfully Siemens or Phillips.

#### **F) Lack of investment activity**

Another aspect of the Bulgarian economy, which remains outside the monitoring of the Commission is that the state of the economy and especially the lack of prospects for improvement, really block the development - investment activity is low and declining. Levels of both domestic investment and foreign investment are low. The UEB Panel highlights the unprecedented decline in FDI - over 6 times since the crisis, thus depriving the Bulgarian economy from fresh resources. Foreign direct investments in January - May 2014 were EUR 302.6 million; for the same period Bulgarian emigrants working abroad sent in Bulgaria EUR 369.3 million. Low domestic investment is not due to lack of financial resources. On the contrary, banks accumulate substantial financial resources and seek customers for loans, but credit demand is weak. The reason is in the lack of prospects for the economy. Cited above L. Mitov, states that "in Bulgaria is full of money ... The banks have excess liquidity and do not know what to do with deposits – they keep them mostly abroad because there is no economic activity, no demand."

#### **G) Financial stability and the risks to it**

Despite the meticulous attention paid to financial stability, CSR does not contain (at least as regards Bulgaria) adequate analysis of the risks to financial stability. The Commission focuses primarily on public finances in Bulgaria and evaluates them as stable. Budget deficit does not exceed 2% of GDP is much lower than the Maastricht criterion of 3 percent. For this indicator, our country holds one of the leading positions in the EU. In 2013, Bulgaria has a 2% budget deficit. As a major threat to the stability obviously (albeit indirectly) are regarded mainly social expenditures and the potential state budget deficit that may stem from such costs.

With these analytical achievements AGS and CSR of the EC ignores a number of other threats to financial stability, including the pivotal risks to the stability of the banking system. The disregarded risks arise from the neglect of the previous (mentioned above) wave of risks - the merger of economy and politics, the presence of excluding (draining) institutions; false economic growth and the related specific distribution of income (high income inequality). When these risks are not noticed, their link to financial stability is inevitably missed - the state of the regulatory framework (e.g. the regulation of the operations of banks, the degree of protection of bank deposits); the created by the regulation level of confidence in the banking sector; the particularly important effect from regulation - protection of the banks from the influence of political conflicts; weakness (dysfunction) of institutions that must provide adequate monitoring and control on the banking industry, etc.

All this is terra incognita for the monitoring of the Commission. Therefore, AGS and CSR were completely uninformed and did not inform the Bulgarian government on the real risks that occurred: one bank is facing bankruptcy; withdrawal of the bank's license; intentions to nationalize another bank; putting the entire banking system in jeopardy; huge for the size of the country state loan (immediately approved by the Commission) to maintain the stability of the banking system; occurrence of an excessive deficit in the state budget; quickly elaborated

amendments to the legal framework, and the confused Bulgarian National Bank made a proposal that does not impress with intelligence – “speaking against the banks” to be punished with imprisonment. Professor Steve Hanke (considered the ‘father’ of the Currency Board in Bulgaria) called this case a "blatant fraud" and is undoubtedly right. Professor Hanke points out that political influences are the main reason for the collapse of that bank - "... government deposits in this bank have been **politically motivated.**" **He asks the question** why politicians "have directed deposits of state-owned companies to that particular bank? And then if the money did not flow to companies related to them?" Prof. Hanke should know the answer – because of the merging of policy and economy.

#### **H) High and growing income inequalities.**

Because draining-excluding institutions and policies and false growth was overlooked, their impact on income distribution in the country was also omitted, and more specifically - the concentration of income in a small fraction of the population which leads to high income inequality. As we will see further below, this omission has important consequences - above all - the blocking of growth. In short, ‘fading economy’ is politically constructed.

**I) Particularly impressive is another omission of AGS** - noticing the poor state of the education system, AGS does not notice the most important - namely, the signs of **the negative impact of the education system on the intelligence of children.** PISA study identified a number of empirical facts that show the existence of such a negative impact. Besides, there are other studies that show that the phenomenon is not just Bulgarian - other member states probably are also facing it. The European Commission, however, is not particularly interested in checking these doubts, despite the significant European interest in child poverty and despite all the enormity of such a problem.

#### **J) Poorly functioning labour market**

The labour market is in crisis - institutional, resource and professional (lack of competent professionals).

When the Bulgarian economy was defined EU as a functioning market economy, many observers questioned this assessment even back then. In the following years doubts were confirmed and extended. Given the above described state of the economy, it is really difficult to be regarded as a functioning market economy. Especially big are the doubts concerning the labour market and its functioning. Its condition even raises the question whether one can speak of a labour market or of some other system that with its underlying characteristics - rights of participants, qualifications of the workforce, forms of work organization and control thereof, labour costs, etc. - is fully consistent with the peripheral economic zone where the Bulgarian economy falls.

- In particular, it is difficult to accept that labour income is really determined by the market mechanism, given that much of this income is below the cost of living and a considerable part is below the poverty line (a large proportion of working poor); that payment of wages is sometimes delayed by more than a year, and many wages due are never paid at all. Often unpaid labour is practically used. Association "Solidarity Bulgaria" also highlights the prevalence of unpaid overtime hours, which exceed the maximum legal limit for the month by more than 50%, outrages over the workers committed by the owners. A striking example is the clothing sector. Within Clean Clothes Campaign was performed research on the sector in several countries. It is noteworthy that unlike workers in Turkey, those in Bulgaria do not dare even to show

their faces<sup>14</sup>. Quote from a seamstress from Bulgaria, part of the study: "You shouldn't make objections, you just have to work. Workers are scared. If I protest, they will throw me out." Often employees receive minimum wage and 90% of it goes to cover utility bills<sup>15</sup>.

Non-payment of social security contributions was so pervasive that had to be explicitly criminalized.

The Bulgarian Women's Lobby draws attention to a special case of using unpaid labour - women's unwaged work in the household and caring for others in the family. Although this work contributes to the welfare and stimulates economic growth, it remains unpaid, mainly because of the poor social protection system.

Association "Solidarity Bulgaria" suggests that the level of labour protection in Bulgaria is very low, but this problem is ignored by AGS (and CSR, and the National Reform Programme). Documents note the slowness of the processes for announcing bankruptcy, their negative impact on the business partners and the overall business environment. But there is not a single line about the damages and compensation of employees and workers of companies in bankruptcy. The Guaranteed Receivables of Workers and Employees Fund, whose operation is directly related to companies' insolvency proceedings, is not mentioned at all. Neither are mentioned the not working procedures of the fund and the unequal treatment in initiation of bankruptcy proceedings in Bulgaria and bankruptcy proceedings in another country /art. 25, Guaranteeing Receivables of Employees on Bankruptcy of the Employer Act/..

It should also be noted the wishful nature of the recommendation to modernize the legislation, which is not accompanied by any specifics. The problem is that present legislation is not applied. Receivers synchronize their actions with the owners of the companies in bankruptcy; the court delays for months responses to complaints filed by former employees; employees are not included in the list of creditors etc.

Emphasising the need to increase employment without protecting the rights of workers and without measures against the phenomenon of 'working poor' inherently dooms all efforts to failure.

### **K) Usefulness of using the European Funds**

The specified problems can be seen clearly in the impact of the European Structural Funds on the Bulgarian economy - the effects of their influence are unfavourable.

Above all, these funds act as a mechanism for concentration of income and wealth through redistribution from the poorest, medium and even some of the well-off strata to the richest.

Redistribution arises from the fact that the contributions of the country for the EF are paid from the state budget, i.e. – by the Bulgarian citizens living in the country – including pensioners, disabled and other vulnerable groups (paying the contributions to EF restricts the budget in capacity to support vulnerable groups). But when the funds come back into country through the facilities of the European funds, they are received by a very small number of beneficiaries.

This effect is the most evident in agriculture where it is linked to other characteristics - strong consolidation of land use, the said deformation of the structure of agriculture (Bulgaria ranks

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<sup>14</sup> Interview with Turkish and Bulgarian workers employed in the clothing sector <http://lohnzumleben.de/das-reine-elend/>

<sup>15</sup> Bulgaria Factsheets <http://www.cleanclothes.org/livingwage/stitched-up-factsheets/stitched-up-bulgaria-factsheet>

first in the EU in share of closed farms), loss of potential employment - estimates of CITUB indicate that in agriculture can be opened 367,000 jobs, but this option is not used because of the preceding two characteristics (there is 9% decline in employment instead).<sup>16</sup>

In the opinion of many experts, agriculture is on the decline despite (or perhaps - because of) the use of EU subsidies.

Therefore, it is very doubtful that European money contributes to reducing the gap between Bulgaria and the other (more advanced) member states. The effect is rather the opposite - the differences remain and are even growing. A proof is data on labour emigration from Bulgaria to other member states. And the reason for maintaining the differences is not only in the violation of the rules for their absorption. Even if they were absorbed in full compliance with the current rules, the EU funds could hardly have contributed to bridging the gap between the Bulgarian economy and the developed EU economies - regulation of ESF is just inadequate. And more importantly - subjecting it to a serious social impact assessment is avoided.

### **L) Gender equality**

In the toolkit prepared by the European Alliance for Democratic, Social and Sustainable European Semester is stated that “Gender equality is not an explicit objective of the Europe 2020 Strategy, despite the fact that the objectives to achieve gender equality and gender mainstream in all policies are legal obligations enshrined in the Lisbon Treaty.

This is problematic, as the issue of gender equality could be side-tracked in the overall Strategy. The only target which originally explicitly made reference to women and men is to attain the 75% employment rate. However, in recent times, the reference to “women and men” has been replaced by the “working age population,” hence making women and gender equality even more invisible in the overall strategy. Men’s employment rate is close to the 75% target, whereas women’s is a mere 63%. This shows that, without an explicit gender equality overarching objective, it is impossible to track and monitor the impact of the Strategy on gender equality and, subsequently, the measures that need to be put in place to mitigate the impact of policies on gender inequality”.

Participants in the Bulgarian Alliance confirm the observation of the European Alliance. The Bulgarian Women’s Lobby adds that crucial areas of economic analysis are missing as well as the related analytical tools that can support gender equality. More specifically, in order to understand and assess the value of unpaid work performed mainly by women in the household and to take measures to reduce the burden of this work are required economic modelling and analysis and appropriate analytical tools such as time budgets and surveys of households. Such studies would enable to improve the economic and political appreciation of women's work and in the future to improve employment policies by placing greater importance on equality between men and women and to improve both the productive and the reproductive economy.

### **M) Other gaps of CSR**

A multivolume analysis can be written about the gaps in AGS and CSR, which of course, the Alliance cannot do, at least within this project. However, some particularly drastic examples should definitely be mentioned. The state of the pension system is undoubtedly such an example - the picture of its state is deeply distorted. However, we should explicitly emphasize that the distortion of the picture is credited not only, not even so much to AGS, as to other

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<sup>16</sup> Along with this, according to media reports, Lamborghini" cars had been bought with money from the European funds. Other effects of European subsidies for agriculture can also be added - stimulating considerable corruption in its allocation (the Ministry of Agriculture recently submitted to the prosecution materials for large-scale irregularities in the allocation of funds).

analyses performed again under the auspices of the Commission (which speaks of system and therefore – of premeditation of these efforts).

As it is known, the Commission sees the reason for the deficit in pension funds primarily in the increase in the number of pensioners, including due to (even - mainly because of) the combination of increasing life expectancy (of pensioners) and keeping a relatively low retirement age.

The assertion that the increase in life expectancy along with 'low' retirement age contribute to increase in pension expenditure (respectively - create a deficit in the pension system) is completely true, and yet it is very misleading. The problem is that the main reasons for the deficit in the pension system were quite different (false growth and its consequences, primarily - distorted income distribution, the inability of the economy to provide adequate employment and income, etc.; among those reasons is also the pension reform itself – the way it was performed in Bulgaria).

According to CL Podkrepa, the main reason for the deficit in the pension system is the unconditional reduction of the pension insurance contribution from 32 percent in 2000 to 17.8 percent at present, of which 5 percentage points are transferred into the compulsory private universal funds for supplementary pension insurance for persons born after December 31, 1959. Furthermore, the supplementary differentiated pension contributions of 12 and 7 per cent, respectively for workers of first and second category of employment, after 2000, go to the compulsory private occupational funds for supplementary pension insurance instead of the NSSI.

As it does not identify these and other major causes of the deficit, the monitoring does not notice another fundamental risk, which already occurs in the pension system - it turns out that the majority of workers who have paid contributions for pensions in the private and professional funds and under the current legislation should start receiving pensions in 2015, will not be able to get such pensions as the funds have not accumulated sufficient resources. According to the Vice President of CL Podkrepa, the private pension funds worked with the intention "... to wait for the time to pass, to take these contributions from employees, then we'll see what happens." It is surprising that this risk has not been identified because (again according to the Vice President of CL Podkrepa) "the fact was known long ago, but was intentionally overgrown with mythologies."

The result is that a risk that is not identified and managed properly will cause damage to hundreds and thousands of workers - they will not receive adequate compensation for the contributions they paid. Underway is a law to legalize such damages, allowing the funds to pay the pensions partially.

UEB especially highlights the overlook of some other important problems:

- there is no evaluation of structural unemployment, which is an effect and a sign of the deepening crisis and instability of labour markets. By the way are marked peripheral regions and ethnic profiles of unemployment. There are no specific policies and measures or reference to good practices;

- there is no discussion on the biased, low-efficiency approach to job creation - through subsidized employment that does not create quality jobs, wastes resources, discourages job seekers and increases emigration;

- there is no discussion on the issue of labour migration – it is believed that this is a specific Bulgarian problem and there are no measures to keep the workforce in Bulgaria; coordinated policies between Bulgaria and host countries are not being considered;

- neglected is the clear evidence that the effectiveness of the proclaimed fiscal stability and sound adherence to the framework of the austerity policies is highly compromised - arises permanent deficit and a constant pressure to update the budget; growing external debt; after a period of formal stability comes a period of real instability. The mass protests against the social effects of these policies are not mentioned;

- Recommendations for the energy sector seem logical, but note only one of the deep sores of the sector: supernormal profit of energy producers guaranteed by unfavourable (anti-market) contracts. The problem of extremely acute energy poverty is ignored. The discussion on energy poverty held on the initiative of UEB was ignored by the government. Today, international institutions, the EU and the United States criticize Bulgaria for the strong energy dependence on Russia and recommend 'diversification'. But CSR leaves in silence the questions: exactly what diversification, with what resources and with what effects.

## **5.2. How specific are the specific recommendations?**

The above deficiencies in the monitoring of economic and political realities in Bulgaria inevitably lead to distorted identification of risks, and, in the long run, to distortion of the system of recommendations needed for efficient risk management.

In most general terms, the deformation of the Recommendations manifests itself in the fact that they are not 'specific' enough, i.e. they are not focused at the issues that seem to be of utmost importance for the country. Having noticed that, Alliance members raise the question how specific the country-specific recommendations are. The expert group of the Union of Bulgarian Economists puts special emphasis on the insufficient accuracy of the monitoring for Bulgaria in identifying the actual specifics of Bulgarian economy. As shown by the experts, the macroeconomic situation is extremely varied in the new EU Member States differing from those belonging to the Eurozone. Neglecting these differences results in offering general prescriptions in the Recommendations, such as: "Maintain a healthy fiscal environment", or "hold back salary growth, minimum wages, respectively". However, similar recommendations are low-productive and could be even counterproductive for Bulgaria (and other countries as well).

Superficial monitoring which leads to recommendations of the 'shoehorn' type can be also observed in prescribing the 'austerity measures'. Austerity measures feature as a key recommendation to Bulgaria although it is among the most disciplined countries in the EU with regard to fulfilling the following criteria: a/ budget deficit; b/debt-to-GDP ratio. The recommendation on business credit options bears a similar nature.

The distortion (and before all – the non-specific nature) of the recommendations also manifests itself in the fact that some important and vitally indispensable recommendations have not been made, and among those made, some fail to achieve the objectives pursued or generate other effects that turn out to be unexpected resulting in undesirable consequences. A major indicator for the deformation of recommendations is their inconsistency – there are recommendations contradicting one another producing reciprocally eroding effects. Distorted recommendations finally result in not having the risks efficiently neutralized, or, in other words, no growth and progress can be achieved. The failure to efficiently neutralize risks leads to increased damages suffered by citizens and their societies due to risk impacts. Below, some cases of damages occurring due to inefficient management schemes have been presented, illustrating in particular how the occurrence of unidentified risks in the reduced (actually – misleading) monitoring disorients the country-specific recommendations and causes damages.

### 5.3. Missing recommendations

A. Financial stability can be pointed out as a typical example of omitting important recommendations due to overlooking substantial risks in the deformed (partial) monitoring through the Annual Growth Survey and the Country-specific recommendations and the negative effects of such monitoring and recommendations. Here again the incomplete analysis (focused on fiscal and budgetary stability) results in incomplete identification of risks and lack of an according adequate political reaction. This deficiency of the Annual Growth Survey was practically proved by the recent events in Bulgaria.

The real processes and risks pointed above were not distinguished by the Annual Growth Survey and Country-specific recommendations and for that reason there were no any alerts or recommendations suggesting adequate response.

The strict implementation of the recommendations to maintain financial stability turned out not to be enough also due to the fact that other risks (political conflicts, the low level of trust in these institutions) can threaten the stability of the banking system.

In short, the Commission's Annual Growth Survey created an unrealistic idea of the financial system thus failing to spot a number of risks for the financial stability resulting in generating huge threats. This particular case proves that the modest ability of the Annual Growth Survey to identify risks actually deforms the Country-specific recommendations and turns out to be a great risk for those relying on the Annual Growth Survey to identify risks and on the Country-specific recommendations to undertake adequate action to manage the risks threatening the Member States.

B. A particularly heavy deficiency of the monitoring is the fact that it remains blind for the above-mentioned fundamental issue of Bulgarian economy – blocking the authentic economic growth (which creates a solid foundation for growth – economic and social) and maintaining an imitational (false growth), or in other words, merging economy and politics, which in turn triggers an economic dynamics of the type 'rent seeking'. This failure of the Annual Growth Survey is really amazing as similar issues and their summarized effect – the inability to achieve authentic growth – are quite apparent in other EU countries as well.

As observed by the expert group of the Union of Bulgarian economists, in EU in general, and in countries as Bulgaria in particular, the contradiction between fiscal stability (a major pillar of the policies and recommendations) and attaining authentic economic growth is getting deeper. The policy of strict budget restrictions and refraining from external borrowings does not allow – especially in emerging markets – to earmark resources aiming to encourage growth.

In fact, the same can also be said for a number of other Member States, but Bulgaria is a particularly vivid example – it definitely ranks among the countries whose economies enjoy sound public finances. As pointed by the expert group of the Union of Bulgarian economists, this would be a right evaluation provided we were guided by the criteria prescribed by the European Commission within the framework of the European Semester and as part of the anti-crisis strategy coordinated at a common European level. Moreover, Bulgaria has been maintaining a similar stability for six years now (with some departure in 2010).

If we follow the logic of the European Commission, throughout these six years positive results should have been achieved in the real sector, the employment rates and in the social sphere. However, this has not happened. The expert group of the Union of Bulgarian economists provides as argument the findings and recommendations of the Bulgarian National Reform Programme for 2014 – they all contain solid proof and evidence of economic downturn and deterioration of the social situation: *low/symbolic growth of GDP; the estimates*

*for 2014 and 2015 for growth above 2% will hardly be achieved.*

C. A largely distressing fact is the lack of adequate recommendations as regards the educational system (mainly the primary and secondary education), and in particular, neglecting the risk of the potential negative effect of the educational system on the intelligence of children. The Commission has not given any recommendation for urgent verification of such impacts, or suggested urgent introduction of training to help develop the social and emotional intelligence of children (social and emotional learning – SEL). No recommendations have been made to improve the monitoring and care of children’s mental health and improve the activity of the network of school psychologists.

D. Although data show *continued high unemployment rates, especially for youth unemployment, further sharpening of the employment problem for long-term unemployed and discouraged workers and Roma people, poor efficiency of policies to address and overcome these problems*, there are no adequate recommendations for improving employment because the monitoring failed to establish the inability of Bulgarian economy to create employment and to identify the main reasons leading to such incapacity (the false, excluding growth). As there is no similar analysis in the Annual Growth Survey, the problems remain unidentified and it is not possible to construct adequate political measures. For example, the recommendations have omitted a component of major significance for Bulgaria (including for reducing youth unemployment) - the steps needed to develop social economy, and more precisely, the creation of adequate legal framework and the provision of adequate funding for social economy. Several Bulgarian governments in a row kept away from setting up a social economy law (including creating an adequate legal framework for the production cooperatives in agriculture, which is why they literally failed). These steps do not appear in the Recommendations either. In addition to this, other measures are suggested in order to address the problems, but their efficacy is doubtful. For example, the EU Youth Initiative, facing the political, economic and social realities, would probably have a beneficial effect, comparable with the effect of the European Structural Funds, discussed above.

All strategies put emphasis on the need for education to respond to labour market demand. In order to make proper and working forecasts about the employees and workers that will be needed by the private business, it is necessary to be aware of the plans the business has, but there is no similar analysis – how could Bulgarian education be expected to comply with these plans then. The fact that 80% of the employers have secondary or lower education (survey of the Bulgarian Industrial Association) could possibly account for the difficulties in business planning.

E. The current state of the pension system also presents an example of how weak or even inadequate recommendations are formulated due to poor identification of risks. As was pointed out, the Country-specific recommendations suggest rising the effective retirement age. To put an accent on increasing the retirement age is not incorrect, but this is not the most important issue, nor the most efficient tool to eliminate deficit. Specific group interests in Bulgaria amplify this measure bringing it to a hypertrophied state thus turning it into panacea for the entire pension system. Many other even more efficient measures have not been formulated. For example, by a letter of the Ministry of Labour and Social Policy dated March, 2014, the Confederation of Labour Podkrepa put forward a number of measures to be introduced in old-age insurance legislation that could be more efficient in the efforts to eliminate the deficit in the pension system. Among them are measures to draw up accurate actuarial assumptions and discuss, together with the social partners, a long-term plan for gradual increase of social security contributions till the situation of excessive deficit in the Public Social Insurance Budget is remedied. The following legislative changes are planned to be introduced starting 2015:

- Increase the social security contributions for the Pension Fund by 1.2 percentage points;
- Establish a zero contribution for the universal pension funds related to the supplementary compulsory pension insurance (second pillar) by introducing pertinent amendments in Art.157, para1 of the Social Security Code;
- Create a solidarity-based professional pension fund at the National Social Security Institute for those working in difficult conditions and fix a social security contribution of 15% for first category labour and 10% for second category labour;
- Make intentionally evaded social security contributions a criminal offence;
- Improve the operating rules of the additional voluntary pension scheme funds by implementing professional schemes, etc.

All this has resulted in deterioration of the situation in Bulgaria. When it became obvious that the private pension companies (which have so far acted by the rule ‘let’s take these contributions from the people working and then we will see what happens next’) will not be in a position to fulfil their commitment to pay the pensions promised, these companies called for amendments in the Social Security Code so as to pay only part of the pension instead of the full amount of the pension due (for miners, metal-workers and all persons having difficult and hazardous occupations).

What will be the social (and economic) effect from a similar measure; how will it contribute to the prosperity of a Member State?

F. Due to the same analytical deficit of the Country-specific recommendations, the poor and even lacking capacity of Bulgarian economy (the excluding growth) to mitigate poverty has not been identified. That’s why, notwithstanding the European Semester (or probably precisely for that reason), data undeniably indicate:

*- growing poverty and social exclusion, deepening the gap with the other European countries; poverty does not only not shrink, but it also stretches out to new dimensions – there is increasing poverty among the employed, the main reasons lying in the systematic and widespread delays in payment of wages and other remuneration owed to workers as well as denials to pay remunerations already earned.*

Instead of spotting these problems, the Commission sent its representatives on a fact-finding mission on the occasion of the ‘warning’ that the nominal labour costs in Bulgaria are raising rapidly thus posing a real risk of macroeconomic imbalances.

G. The unnoticed false growth (‘rent seeking’) has led to the failure of noticing the high income inequalities it generates. And the unnoticed income inequalities lead to ignoring central issues of the tax system. The recommendations in this area omit important aspects of the primary income taxation scheme (it is quite interesting that the recommendations for Austria, however, contain exactly opposite element). More specifically, the fact the European Anti-Poverty Network Bulgaria has been raising concerns about for a long time has been omitted, namely, that the general income taxation (taxes plus social security contributions) in Bulgaria is in fact regressive, which means that the taxation system does not correct the too large income differences after the primary distribution. The expert group of the Union of Bulgarian economists has also noted that there are no comments whatsoever about the unprecedented expansion of the scope of low-rate flat tax across the Eastern part of Europe.

The same experts underline that Bulgaria is in essence a tax haven after the introduction of the 10% flat tax on personal income and on corporate profits – actually the lowest in EU.

Instead, the Recommendation focuses on other problems.

H. The recommendation to speed up the absorption (raise of absorption rate) of EU structural funds in 2013 and its withdrawal in 2014 is also an effect from the lack of adequate monitoring on the process of ESF absorption. The previous points show there is a more important problem than the absorption rate – EU funds function as an excluding mechanism. Significant amendments in the legal regulations and in the ongoing fund management will be needed to address this problem. However, there are no such recommendations. The old problems remained and are generating risks which actually blocked the activity of the State Fund Agriculture in 2014.

I. ‘Solidarity Bulgaria’ thinks that two more major topics have been left out. The absence of adequate housing policy has been neglected for years. This is one of the main reasons for the emergence of new ghettos. European institutions start noticing this problem only when it comes to demolition of illegal buildings – then Bulgaria would be held responsible once again and obliged to pay penalties.

The second missed topic is the provision of health services to uninsured persons. Official data report that long-term unemployed people with no health insurance ran into 460 000 as of November 2013. They cannot benefit from any out-patient healthcare, so their only option is emergency healthcare. This unit is extremely overloaded resulting in doubtful effectiveness, and the life of the citizens needing emergency medical help is threatened. Another aspect is hospital care getting overly costly – due to the lack of prevention health problems are getting more complicated and the treatment involved increased costs. In addition, medical disorders become chronic, disability rates are growing, and the citizens are not in a position to lead an active family and working life.

The responsible management approach would be to anticipate the problems and address the factors causing them way in advance. Unfortunately, housing policy and the provision of health services to uninsured persons does not in any way figure in the European documents.

#### **5.4. Declaratory recommendations and general suggestions**

There are recommendations looking useful ‘in principle’, but they are not well ‘founded’ in the monitoring (they have not been deduced analytically and accompanied by solid grounds), which makes the recommendations sound as general suggestions (slogans, calls) of low practical applicability. An example of a similar ‘correct’, but impractical recommendation is the one suggesting to improve the lending activity of the banks, especially for SME. This recommendation is absolutely valid as business crediting, especially for small and medium-size enterprises, has been actually blocked (the share of loans to SME is comparable with the crisis peripheral economies). However, the blocked business credit system in Bulgaria is not due to the intentional downsizing of banks’ lending activity. The major reason for limited bank credit is the overall economic situation (the blocked growth) and the poor prospects for authentic growth. Consequently (and for some other reasons – for example, the large ‘freedom’ of the banks to change the initial terms and conditions of the credit contract), there is no demand for bank loans. Therefore, the banks are not the ones curbing down excessive crediting on purpose, some of them are even hunting for clients to use the financial resource they have accumulated. Obviously, given this situation, the recommendation to intensify bank lending activities remains only an appeal, a call not offering an adequate response, but rather deviating the pursuit of an adequate solution of the problem in the wrong direction.

The recommendations to bring down the tax burden on labour, reduce investments in

education and social services, etc., are marked by the same downside.

### **5.5. Contradiction of the recommendations**

By reason of the deficiencies in the monitoring and identification of risks (problems), some recommendations are inconsistent.

The Confederation of Independent Trade Unions in Bulgaria (CITUB) stresses that **the first recommendation of the Council** urges Bulgarian authorities to undertake decisive action and adopt measures to address shadow economy issues, but at the same time has doubts about fixing minimum social insurance income thresholds and about the registration of labour contracts, which in fact are the tools to curb grey economy. The question of self-employed persons has been completely underestimated.

The expert group of the Union of Bulgarian Economists also point to a number of inconsistencies:

*First*, how could consumption as a drive for economic rebound be boosted when the European Commission insists on shrinking social expenditure and disapproves of raising minimum wages – moreover, without giving any arguments why (and, without using any objective data about the correlation ‘labour productivity – wages and salaries’).

*Second*, Bulgaria is definitely the country having most severe problems and lagging behind in fighting extreme inequality, poverty and social exclusion. Independently, without any extra help from EU, it cannot cope with these issues in short-term horizon. Against this background, the recommendations for tightening the measures in the pension system and public expenditure seem irrelevant, to say the least. It is not possible to pursue diametrically opposed objectives at the same time.

*Third*, the deteriorated quality of employment and the poor efficiency of labour market institutions over the last years, whose negative impacts become increasing harsh for the newly-recruited, for Roma people, pensioners-to be and long-lasting unemployed and discouraged people, comprises a problem for which no political measures to work out an effective alternative have been found. In this case the general European prescriptions for youth guarantee schemes, for broadening the range of beneficiaries on welfare, etc., cannot be applied in the Bulgarian situation. We need a separate bailout plan to be incorporated in the Partnership Agreement between Bulgaria and EC for the new programming period.

No doubt there are other contradictory recommendations besides the ones already mentioned, for instance, the contradiction between the intention to improve youth employment and the plans to raise retirement age. Obviously, raising the retirement age will more or less neutralize the efforts (such as the Youth Initiative) to boost employment opportunities for young people. Certainly, we cannot skip the question what kind of professional and intelligent approach is an attitude leading to the concurrent implementation of measures that are inconsistent and mutually exclusive (wouldn't spending money for such political measures be wasting taxpayers' money)?

Taking into account all we have discussed so far about the specific recommendations for Bulgaria, we can ask the question of whether and is it right for national policies and the pursuit of national goals to be put in a sort of ‘Procrustean bed’ of the general European political framework delineated by the Annual Growth Survey and Country-specific Recommendations. The question is particularly important with regard to social national goals as their completion is strongly dependent on the financial stability framework and austerity policies.

**Below, we will try to give an answer to that question in discussing the National Reform**

## **Programme.**

### **III. ALLIANCE POSITIONS ON THE NATIONAL REFORM PROGRAMME (NRP)**

**The key answer to the Annual Growth Survey and the Country-specific Recommendations is the updated National Reform Programme submitted by the Bulgarian government (April, 2014).** It was adopted by the government on the sly and was sent to Brussels without having been widely discussed and without informing the public.

The updated NRP has been developed in 4 major sections – Macroeconomic Context and Scenario; Implementation of the country-specific recommendations as of the year 2013; Progress towards the national goals of Europe 2020 Strategy and Additional Measures for Reforms and Use of the Structural Funds.

Formally, NRP is a management instrument having a dual role – on the one hand, it ensures the adherence of national policies to the policy framework established by the European Commission (AGS and CSR). On the other hand, NRP should reflect the specific problems of every Member State with regard to its economic and social development. The fact is NRP is strongly subject to AGS and CSR though a number of mechanisms – in the first place, by means of certain requirements to NRP as, for example, proving the urgency of the national goals or providing a detailed description of the **budgetary implications** following from pursuing national goals. As Frederic Lerais observed, this subordination of NRP to the other two documents allows to pursue specific national goals depending on the degree of ‘ceding national sovereignty’ or on the capacity of national governments to form their own views (and stand up for them in their interaction with the Commission) if these views do not coincide with the Commission’s vision and the framework it has specified.

As the degree of ceding national sovereignty for Bulgaria is quite high and Bulgarian governments do not have any particular capacity of forming and defending their own views, NRP sticks to the major policy parameters (framework) outlined by the Country-specific recommendations and the Annual Growth Survey, regardless of the social and economic specifics of the country. All this makes AGS and CSR for Bulgaria highly important as they have a very strong influence on national policies and on the economic and social situation in the country. Undoubtedly, all this more or less allows viewing Bulgaria as a field for practical testing of the Semester’s social and economic efficiency; a sort of social laboratory for checking the Semester’s efficiency as a management cycle. This view becomes particularly important when related to the state of CSR described above and to the fact that Bulgaria has been qualified as the ‘poorest EU country’ for quite a long time.

The positions of the participants in the Alliance on NRP highlight the following findings:

Firstly, some participants underline that the statistical indicators characterizing the progress in achieving national goals are imperfect, especially for a country like Bulgaria, which is rapidly losing population - the effect of achieving employment targets and poverty reduction will be largely disputable. CITUB criticises the higher education criterion, where, for some vague reason, the cohort of 30-34 year olds has been adopted. At present this is the generation of 24-28 year olds who are not likely to be convinced to acquire a university degree. On the other hand, the government reports progress in reducing the number of poor people by over 73 000 compared to 2008. The SILC data report that the poverty level has practically not changed throughout the period, which means that the number of the poor has decreased in absolute figures due to the drop in population. It is quite reasonable to ask then – what are we going to report in 2020? Probably an overachievement of the target /fewer poor citizens by 260 000/, but at what level of poverty!

Secondly, NRP sticks comparatively strictly to the policy guidelines prescribed by the Semester documents. Some departures concern only the pension insurance scheme and do not comprise a refusal to follow the recommendations, but are a temporary ‘freeze’ of their implementation.

Thirdly, although prescribed policy parameters are followed relatively strictly, the assessment of the social impact of NRP is quite critical. The explanation is probably related to the state of AGS and CSR discussed above, evaluating their social impact as not positive enough.

The experts from the Union of Bulgarian economists observe that the Bulgarian institutions have mastered the skill to develop documents following EU recommendations. For example, at present there are strategies in place for education, healthcare, reindustrialization, the energy sector, the demographic situation, the immigrant and refugee issue, etc. However, the review of the strategies and the real situation show that:

- the strategies are developed in a closed circle of narrow-profile experts (for instance, for reindustrialization, the energy sector and the refugee issue), they are adopted and reported in a formal way, without resource availability and implementing measures with uncertain effect;

- due to the preparation scheme, the strategies are either targeted to satisfy some group interest, or are directed against such interest. In the first case they face intense opposition by other groups, and in the second case – by the groups whose interests have been harmed;

- strategies are mainly the concern of the government, but they are not approved by the Parliament and by the political parties (e.g. the Education Strategy, the Energy Strategy).

Some comments on the last two points are presented below.

## **1. Following European Policies**

**Alliance participants indicate that a many of the recommendations are implemented by means of a number of ongoing political measures.**

CITUB, for example, mentions the following measures undertaken in response to the Recommendations: a) As regards **Recommendation 1** – Make evading social security contribution payment a criminal offense; introduce changes in tax regulations aiming at curbing grey economy; б) As regards **Recommendation 4** – the legislative changes for optimising secondary and higher education are being carried out. The funds needed for the educational reform are being increased (by BGN 100 million for 2014), as well the funds for the development of science and technology (the budget of the Bulgarian Academy of Sciences for 2014 was increased); **Recommendation 5**: measures are being undertaken to curb administrative burdens on the business. There is still a way to go, but the tendency is definitely positive. The access of small and medium-size enterprises to funding is further facilitated by preferential lending options provided by the Bulgarian Development Bank. The latest amendments in the Public Procurement Act will facilitate the companies’ access to public tenders providing more opportunities to get contract awards. **Recommendation 7**: the position of CITUB is that ‘there is much more to be done, but there is progress. The absorption rate is on the rise. Legislative changes are being adopted to improve procedures transparency and facilitate the beneficiaries applying with projects’.

## **2. Departure from European Recommendations**

The Alliance has established a number of cases of ‘selective’ implementation of European recommendations – some are implemented, and some are neglected.

Association ‘Solidarity Bulgaria’ cannot find the reasons for the uncritical implementation of

some European recommendations and neglecting other. An example for the second attitude is the long-running preparatory period for concession of the entire water sector in Bulgaria, contrary to the resolution of the European Commission to leave out water supply and water resources management from the common rules for the development of the internal market and liberalisation and put more effort in ensuring comprehensive access to water and improved hygiene and sanitary conditions in the world /March 19, 2014/.

Along with that, it is indicated that (referring to **Recommendation 4**) there is an unjustified delay in adopting the Law on School Education and supporting reforms in vocational training, including the introduction of elements of the dual system.

Meanwhile, ‘Solidarity Bulgaria’ Association reminds that a number of further analyses should be undertaken before implementing the dual system. The introduction of dual education in Bulgaria should be handled with extreme care. Not all vocational schools are suitable for this purpose. Many of them train young people who are there to pursue post-secondary studies, and dual education is totally inappropriate for them. The only suitable schools are the former Secondary Professional Technical Schools, which have kept their profile. They train students of low social status without any particular ambitions or capacity for further education. Even in that case it should be carefully assessed whether there are well-established operational enterprises which are in a position to provide adequate facilities to support dual education and are large and stable enough to offer sustainable job positions. Dual education should not rely on dying sectors thus falling into the risk of leaving the trained youngsters without a proper job; with no resource or prospects for further education (dual education makes grave compromises with general schooling). So far, no similar assessments have been provided. The major part of the business in Bulgaria is unstable and unpredictable. It would be irresponsible to confine the young people by profiling them in areas of no clear future.

The health reform has been also delayed. The problems related to access to health services and funding for healthcare are getting worse; there is no transparency in how money allocated to hospitals is spent; the deficit in the budget of the National Health Insurance Fund is further growing, making its urgent update imperative; there is no political consensus for continuing the reforms in the sector. As regards **Recommendation 5**: The implementation of e-governance is lagging behind. The delay in reforming the judiciary is particularly negative. The assessment on the implementation of **Recommendation 6** is absolutely poor: A national power exchange has not been established yet. The regulatory authority is not independent enough. Its members should be nominated by the Parliament and it should be subject to strict public control. A number of preferential lending schemes for projects aimed at reducing energy consumption have been already offered. The document emphasizes that we have already achieved the 2020 targets for power generated by renewable sources. However, no differentiation has been made regarding the business projects in RES and the household options to make use of the new opportunities. In contrast to the boom in the RES business, the barriers faced by households remain overwhelming – high connection charges, cumbersome RES regularisation procedures. Such an approach suggests that business considerations prevail over environmental concerns or any efforts to increase the citizens’ energy independence.

Our energy system suffers most serious problems due to the long-term purchase obligations as regards RES power and similar contracts with some foreign power plants at extremely high prices.

### **3. Social impact of NRP**

The Alliance participants also point out that the economic growth targeted by NRP for the period 2015-2017 – of 2.6-3.4% - is insufficient to achieve substantial improvement on the labour market as the effects are usually about 50% of the attained GDP growth and become evident almost a year after.

The European Anti-Poverty Network /EAPN/ Bulgaria underlines the importance of constructing an adequate type of growth as well – Including growth. The absence of well-grounded views on this question is estimated as a fundamental deficiency of NRP. The development of adequate economic organization forms that can contribute to such type of growth has not been mentioned either, in particular, social economics (cooperatives, social enterprises, and family business).

CITUB adds another aspect to this view – internal demand as a growth factor has not been given due attention, which shows that the government will strictly adhere to the calls from Europe for fiscal consolidation and careful income growth.

Another major deficiency is the disregard for the huge income inequalities and the way they are treated politically.

The information centre indicates that by GDP per capita (in PPS) Bulgaria belongs to the group of middle income countries (even middle to high), but data on poverty ratios rank the country as the poorest in Europe. This huge discrepancy is attributable to the huge income inequalities. The information centre underlines the absence of a clear understanding that inequalities (and the mechanisms generating them) are the major cause blocking the growth and development of the country.

It is emphasized that the tax system and the absence of adequate income policies should mitigate the action of this mechanism, which blocks growth and development and generates poverty. This problem is however ignored (right in the spirit of AGS and CSR) and adequate policies are not only absent, but certain excluding (draining) institutions are wrongly supported – for instance, the taxation on income (taxes + social security contributions) is regressive.

Progress on national goals is estimated as poor. The two major reasons mentioned by all participants are the insufficient resources (the shares of all types of social expenditure in the state budget and in GDP are much lower than the average figures for EU); the measures fail to match the most important social risks, more precisely, they mismatch the most important reasons for these risks. Alliance participants think that some of the measures laid down in NRP for the implementation of the country-specific recommendations are not convincing – in their major part they are simply intentions for future action, developed strategies, etc. As a result, although there is one less recommendation to Bulgaria since June 2014, in essence they remain the same, without any significant changes.

The inefficiency of the measures can be very clearly observed in the labour market, which remains ineffective and has low capacity of integrating the ones already excluded. Consequently, unemployment rates remain too high, especially for some groups.

NRP does not contain adequate measures to improve the low effectiveness of the National Employment Agency (on the subject of the monitoring and impacts on the most vulnerable groups – the low-skilled workers, elderly people, long-term unemployed and Roma people).

The Bulgarian Women's Lobby have shared an important finding that human capital in Bulgaria is not developed and used appropriately citing as an argument the high share of young people who are not working, not studying or receiving training.

The National Movement ‘Bulgaria is you!’ draws attention to the contents of the National Reform Programme – packed with suggestions and expected results rather than accomplished outcomes. It is specially emphasized that the Government actions do not in any way ensure better social protection to the most vulnerable social groups. Energy cost allowances, for example, are allocated only for this heating season, without any long-term plan or measures to reduce costs in a longer horizon. According to the National Movement, the conditions for access to public health services are also inefficient. The mobile centre for dental medicine of ‘Bulgaria is you!’ reports that according to dental specialists providing treatment to socially disadvantaged children and their families in North-western Bulgaria, the dental health of 10-12 year old children is extremely worrying as they have some permanent teeth extracted and are not used to maintaining basic rules of hygiene.

The National Movement estimates social support for socially disadvantaged families as very poor, especially for the large families - the parental child-rearing allowance does not help improve the living conditions of socially vulnerable mothers of many children; multi-child mothers cannot work<sup>17</sup>, and the earning of the other parent are far from being sufficient. The one-off social welfare allowance for school, though slightly increased, is also far from being sufficient. The same goes for the monthly benefits for a second child in the family and for a twin child. The establishment of a two-child family model discriminates parents with more than two children and no social benefits are foreseen for multiple-children parents in times of ‘demographic winter’, not only in Bulgaria, but in many parts of Europe as well. There is no long-term vision to address the problems or clear regulation on the criteria to receive social benefits, and on the control mechanisms and measures focused at improving the situation of the people rendering them less vulnerable.

It is also mentioned that even though the pension system and related reforms therein are being widely discussed, the central question is left out, namely: whether the pension system will be adapted to the deformed distribution of income (as now) or the distribution of income will be changed taking into consideration the present problems of the pension system. An in-depth assessment of the pension reform so far has been also missed out to be made.

Due attention should be given to the finding that the crisis in the education system is much deeper than outlined in official positions, and the pressure to adapt education to the needs of Bulgarian business is further deepening this crisis. The central aspect of the crisis in education was not noticed until the latest PISA survey, which reported low intelligence levels of the children surveyed. This poses the big question why the education system does not address this problem. The Information Centre believes that due to the crisis it has fallen into, the education system is not only incapable of solving the problem, but it is the underlying factor of the problem because it distorts the individual intelligence of young generations instead of building up their intelligence to be a driver of the social and economic development of the country. The Information Centre says this problem has long been established and the Centre publicly alerted representatives of the two ministries (the Ministry of Labour and Social Policy and the Ministry of Education, Youth and Science) 4 years ago, during the European Year for Combating Poverty. The ministries then ignored the warnings and have been neglecting this matter so far. The deformed individual intelligence of the young generation is clearly manifested in growing crime rates and a general trend of deviating behaviour and lack of capacity to achieve personal prosperity that would be of benefit to the overall development of the country and society. That’s why EAPN Bulgaria insists on having a careful and professional monitoring on the knowledge taught in school from the perspective of the values

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<sup>17</sup> The promoting of employment for long-term unemployed persons does not include multi-child mothers. They have fallen out of the labour market for many years thus making it very hard to start work again. They do not have any qualification or experience to help them find a proper job.

inspired to children; they call for improvement of school curricula, especially those in Bulgarian language and literature, world literature, history, etc.; introduction of programmes targeted at developing the children's social and emotional intelligence, especially for some ethnic groups which are in exceptionally poor condition. The 'Solidarity Bulgaria' Association underlines that the National Reform Programme does not consider the impact of Roma's huge poverty on their opportunities to attend school. It does not consider the consequences of closing down 800 schools in the period 2001-2011, which forces the children to travel tens of kilometres a day and hinders their access to educational services.

## **PART TWO: DEMOCRATIC ASPECT OF THE EUROPEAN SEMESTER AND QUALITY OF MANAGEMENT**

**After reviewing the main components of the European Semester, the next logical step is to make a general assessment of the democratic aspect of the overall political cycle and the quality of management carried out through the cycle.**

### **1. Basic features of the Semester**

The review of basic documents (phases) of the European Semester shows there are fundamental and mutually dependent specific features (across all three documents):

- A. A number of indications show that the documents in question do not outline a sufficiently comprehensive and realistic idea of the most important segments of economic and social realities. Important segments of the economic, political and social realities remain out of the reach of AGS, CSR and NRP.
- B. Neglecting some segments of the realities allows to keep certain policies (priorities and specific measures), but the weaknesses in monitoring the realities greatly impede the capacity to identify the most important risks-causes of the problems creating huge threats to European citizens and their societies. Risks estimated as particularly dangerous for societies have been neglected by AGS, CSR and NRP.
- C. The weaknesses in identifying risks causes certain distortions in singling out the priorities and measures needed to neutralize the risks. The capacity of a large part of the formulated priorities and measures to deal with the major risks (to address the problems) is quite poor.
- D. Due to the low capacity to neutralize the major threats for the individuals and societies (disregard of significant risks), the latter cause substantial damage to the citizens and societies as a whole.

All these weaknesses of AGS, the Recommendations and NRP do not build trust in these instruments for management and in the Semester as a whole, but rather support the opinion articulated by Frederic Lerais that AGS, the Recommendations and NRP are a sort of a field for playing certain 'games' with the participation of the European Commission and national governments. Similar opinion has been shared by participants in the Alliance as well. This is also corroborated by the position of CITUB mentioned previously that the Recommendations and their implementation 'gets stuck' in one and the same problems – grey economy, corruption, public procurement, education, healthcare, the energy sector, the labour market, the pension reform. Not only the problems are reiterated, but the somewhat inefficient measures to address them are also repeated. In other words, the reason for 'getting stuck' lies not only in the failure to fulfil the CSR, but in their inefficiency as well. Even if CSR and

NRP were strictly followed, the positive changes would be too feeble.

In short, the assessment on the social impact of the three Semester phases (and the whole Semester) pointed above is not positive. This assessment and its arguments require careful discussion. In other words, we need to find an answer to the question why these fundamental weaknesses arise.

## **2. Games with information and knowledge**

Obviously, the first of the Semester weaknesses mentioned above is of primary importance as the next three are largely its consequences.

The conclusion that the Semester has ignored extremely important aspects of the economic and social realities is grounded on the examples for neglecting particularly important (and negative) aspects of the economic and social dynamics (the type of economic growth – false and excluding, and its (also negative) social impacts). The accent (especially in AGS) has been placed primarily on positive aspects, and their importance needs much more convincing arguments. Besides, the picture of the realities is distorted by the deliberate focus on economic realities and much less attention given to their social impacts. As far as the economic monitoring is concerned, the primary attention is oriented to the financial sphere at the expense of the real sector. Economic, and above all, financial goals of EU governance tend to dominate in the Recommendations as well. This structure of the accents is also substantiated by the role of the Fiscal Compact, the Fiscal Compact ‘Euro plus’, etc. On the other hand, however, the National Social Reports do not comprise a significant component in the European Semester and play a secondary role therein, and the Joint Employment Reports (directly related to the real sector) appear as an appendix to AGS. So, the observations and the documents most closely related to the distribution of income, real income levels, social protection, living standards, etc., assume secondary importance in European governance – they are not influential components of the Semester.

The described monitoring structure clearly confirms some important theses: the ‘financialisation’ thesis and its political impulses; the thesis (Claus Offe et al.) for the prevalence of economy (business, in fact) over people and societies due to underestimating the social (humanitarian) impacts of a definite economic dynamics.

The monitoring structure also substantiates the statement of Ian Johnson, Secretary General of the Club of Rome (in 2011) that economics and economic decision making has rapidly become divorced from real values.

The distortions in the monitoring structure, and more specifically – neglecting the excluding society, excluding growth and excluding institutions as well as their social aspects – is a concern raised by the participants in the Alliance (by CITUB – referring to the NRP resource provision; the report of the National Movement ‘Bulgaria is you!’ referring to the Youth Guarantee (measures to address youth unemployment are just ‘envisaged’, and the relevance of the matter to other problems, recommendations and areas, the educational reform being the central concern, is not at all under consideration).

We cannot miss the lack of interest for an extremely important problem area mentioned above - the after-effects of excessive inequalities (and extreme poverty) – such as the up going trend of underweight births (two participants in the Alliance – the Bulgarian Women’s Lobby and the Information Centre a few years ago offered a project oriented to this particular risk, but the project was not approved) or the trends in the physical and mental health of individuals, or the changes in children’s intelligence patterns, and so on. The Confederation of Labour Podkrepa also points to the lacking monitoring and control over the social institutions regarding unhealthy family environment for children, as well as the need to have more strict

and effective measures to exert influence.

These ‘gaps’, respectively – deformations in the monitoring – reduce the consistency of the Semester components, and therefore, question its own stability and consistency as well as its capability to generate sustainability of social dynamics (development). For instance, if the Semester decides to keep coping with unemployment and the social effects from the crisis as its priority, then they would deserve much more attention and they should occupy a more important place in the Country-specific recommendations, in NRP and in the special reports devoted to unemployment (employment) and social problems. Consequently AGS should also pay much more attention to the type of growth, the real sector dynamics, and the assessment on the efficiency of the ‘active policies on the labour market’, and so on. However, the content of AGS (and of CSR and NRP) is quite different.

The other important question raised by the specific structure of the accents in the basic documents of the Semester is whether this structure is not a form of ‘wishful thinking’ or of ‘wilful blindness’, a term established and studied by Margaret Heffernan. She writes: „the mechanisms that make us blind for the world actually put us in the biggest threats and dangers. We may think that being blind makes us safer, when in fact it leaves us crippled, vulnerable, and powerless.” If Heffernan is right, then the wilful blindness of the analysed documents does not create political stability and certainty for the decision-makers (the governance). Rather the contrary – it gives rise to political instability and uncertainty as seen from a number of symptoms.

The reason lies in another aspect of Heffernan’s assertion – the assertion means that (due to the weaknesses described) the Semester itself turns into a generator of risks for EU citizens and Member States as the incapability to identify risks and threats and to construct effective neutralization systems is the biggest risk for any governance and for those counting on the governance to deal with the risks threatening them. In other words, if the policy making process contains symptoms of ‘wilful blindness’, the quality of governance is poor – it rather generates risks for those governing and those governed instead of identifying and neutralizing risks.

Are there any other reasons (except the ones described above) to believe that the Semester has elements of ‘wilful blindness’?

Before all, we must pay attention to the fact that the major problem in risk management (consisting in the existence of risks that have not been noticed and have not been subject to adequate political ‘processing’) is an almost certain indicator of a ‘bad connection’ between exercising power and creating knowledge. One of the greatest authors in risk studies – Jerome Ravetz writes (there is a broad consensus on his opinion) that if there is really a key problem with risk, this is the problem of power, and more exactly - the merger of knowledge with power<sup>18</sup>.

This ‘merger of knowledge with power’ consists exactly in the control of power over the creation of knowledge about realities and the risks involved therein. This control often, even usually, leads to an ‘unbalanced’ creation of information and knowledge – certain ‘problems’ are being observed and other are intentionally avoided. This is exactly the specific feature of the Semester (AGS, the Recommendations and NRP) identified in our previous analysis – a distorted picture of the economic and social realities.

This specific feature of the Semester is not an unprecedented case.

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<sup>18</sup> Ravetz, J., *The Merger of Knowledge with Power*, NY, Mansell, 1990; *Scientific Knowledge and Its Social Problems.*, Oxford: Oxford Univ. Press, 1971

Analyses by European scientists reveal other similar cases in the work of the European Commission<sup>19</sup>. A similar case is mentioned in an analysis of CITUB presented in the course of the present project.

The case refers to the so-called ‘early alert report’ of the European Commission based on Eurostat data and organized into *Macroeconomic Imbalance Procedure (MIP)*, warning about ‘dangerous trends in labour costs’.

The alert stands on the dynamics of the Nominal unit labour cost index<sup>20</sup>.

However, in the Commission’s report this index is calculated in a ‘particular way’ – labour productivity is adjusted in accordance with the inflation rate, while the labour cost growth is nominal. This ‘particularity’ gives rise to substantial differences in the values of this index. When CITUB recalculates the index by eliminating this ‘particularity’, the values of the index become quite different. Here is a comparison of the CITUB calculations and EC calculations:

	EC Calculation:	CITUB Calculation:
2008 (compared to 2005)	26.7%	0.2%
2009 (compared to 2006)	38.5%	12.1%
2010 (compared to 2007)	27.8%	9.8%

Besides, CITUB points out that the conclusion of the European Commission about ‘dangerous trends in labour cost’ is already ‘dated’, it is not valid anymore and raises the reasonable question - what kind of early warning system is this, if it signals for ‘dangerous trends’ 3 or 4 years after they have occurred? The index shows a downward trend (in 2011 it was 20.3% continuing this trend (by Eurostat data – to 9.6% in 2012 and to 6.9% in 2013). The CITUB Chairman also asks the following question:”Why is EC not interested in how the Gross operating surplus/gross mixed income (the income and profit of employers and self-employed) has been increasing so far?” The topic is however neglected although the share of this index in GDP is much more significant than the share of labour costs.

Probably the most important sign of the manipulative nature of the EC alert is overlooking the fact that in Bulgaria the compensation of hired labour as a share in GDP continues to be the lowest in EU – just 37.2%, with 49.2% average for EU.

By the way, a number of analyses show that the ‘merge between knowledge and power’, i.e. the control over knowledge and through knowledge, is a practice widely spread in EU. A fundamental analysis by Boltansky and Chiapello, for instance, shows how critical social analysis was systematically subject to restrictions in EU after the 80s<sup>21</sup>.

Even without referring to fundamental studies, when you review the EU scientific programmes, it is obvious how strongly underestimated are the economic and social topics, which are key factors for the development of EU and for the stability of the political decision-making process (including the Semester). Bulgaria gives a good example for the paroxysm that can be reached by the policy in the field of scientific studies, should social and economic problems be underestimated. Among the priorities of the National Research Fund for 2014, the fourth priority (among five altogether) reads ‘Cultural and historic heritage, **including**

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<sup>19</sup> See, for instance, Plane, Mathieu., The Strange Forecasts of the European Commission for 2014 (<http://www.ofce.sciences-po.fr/blog/the-strange-forecasts-of-the-european-commission-for-2014>)

<sup>20</sup> The index is calculated as a ratio between two components: a) the compensation of hired labour (by current prices in BGN million) divided by the absolute number of hired workers; b) GDP by comparable prices of 2005 divided by the absolute number of the employed (in essence, this is the national index for labour productivity, but based on the number of employed persons). The ratio between these two components shows how labour costs increase compared to labour productivity.

<sup>21</sup> Boltansky, Luc & Eve Chiapello, *The New Spirit of Capitalism*, London, New York, Verso, 2005

**social and economic development**'. A country with huge social and economic problems has decided to study them as part of the 'cultural and historic heritage'. Social sciences, suffering from systematic underfunding, have been also highly underrated. The 'Solidarity Bulgaria' Association mentions the disturbing fact that in their analyses the European Commission and its services quote data on Bulgarian government liabilities, reserves, investments, etc. from sources such as the World Bank, the United Nations Organization, etc. Such an approach would be understandable if comparison has to be made with the indicators of other countries. There are, however, a number of references where the information concerns fully and only Bulgaria. In these cases we can ask the question why not use relevant information and analysis produced nationally (by administration and experts in different ministries, incl. the Council of Ministers, by academic institutions and NGOs)? Such data are supposed to be most reliable and authentic. And if such data and information have not been produced, why is that so?

But Bulgaria makes no exclusion. This is one of the great paradoxes of European governance as all modern risks have a 'social' character, both by origin (they are generated by societies themselves) and by the damage they cause (they affect societies as a whole). Risk researchers have long noticed that „...**we live in times of unprecedented risk ...** the threats we face are unique in two aspects: **they are mostly created by people and their impact threatens us rather collectively than individually**”<sup>22</sup>.

Isn't it really surprising that given this 'social' nature of risks, social sciences, which study these risks, stand so low in the scientific priorities of European scientific policies and programmes? Why is that so?

This particular case, as well as other similar examples, show that AGS and the Recommendations are not just exceptions – there are other occasions of 'politicisation of knowledge' - deliberate restriction and distortion of social knowledge (analysis) and creation of partial and incomplete knowledge used to justify and pursue definite political goals. Exactly this effect is achieved by focusing on some segments of the economic realities and neglecting other important segments.

## **2. Effect from the control over the monitoring and over the formulation of priorities and specific measures**

The deliberate 'selection' of definite knowledge segments and disregard for other segments directs to definite political measures (for instance, austerity measures) at the expense of other options. That's why, a number of important and completely feasible political options are missed due to 'skipping' the studies, resp. the knowledge (about these aspects of economic realities) which might prompt to such measures. So, the monitoring restricts the possible options for political decisions (policy shaping), the circle of possible solutions is narrowed and the consideration of alternative political solutions is excluded (to some extent or another) from political and public debates. In short, the choice of definite policies (political measures, and the political course as a whole) is largely decided back at the phase of monitoring the realities. Its results have influence on the identification of the most important risks and, accordingly, on the choice of political measures, which, in turn, depends on the identified risks.

Thus the control over the monitoring (and its distortion) allows achieving important political goals without announcing them explicitly and without needing any approval by other

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<sup>22</sup> Lyng S. Edgework, Risk, and Uncertainty, In: Jens O. Zinn (ed.) Social Theories of Risk and Uncertainty. An Introduction, Blackwell Publishing, 2008, p. 106

institutions or support from civil structures. More specifically, the monitoring (AGS and CSR, in so far as CSR contain elements of monitoring) allows achieving important political goals:

- to confirm that policies formulated and implemented in previous periods are right (successful) (this is much easier when there is no explicit assessment on the social impact of these policies);

- to implicitly create grounds (arguments) for definite policies in the future, more precisely, to continue implementing policies applied in previous periods.

The previous parts of this report show that these opportunities are widely used in the course of the Semester. A large part of the aforementioned specific features of the Semester (the basic documents) are also signs of premeditation – deliberate orientation of the Semester to the aim of maintaining and implementing specific policies. AGS, as well as CSR and NRP contain numerous confirmations (implicit or explicit) for the aptness of the policies supported in the previous periods, but there is no diagnosing for any errors, especially on EU (EC) level – obviously the analyses, assessments and political measures are considered error-free. Furthermore, the guidelines are outlined and a basis is formed to continue the same political course, both in economics and in the social sphere.

Of course each governance prefers to have its actions confirmed as right and successful. Hence, the above particularities might have been even neglected if the policies did not bring improvements in people's lives and if we did not live in times of severe and continual economic crisis. But that's not the case.

For this reason, the major objections of the Bulgarian Alliance about the way the Semester goes are focused at other problems generated by the described particularities.

By means of these particularities the Semester pushes Member States (and the whole EU) to continuing the same policies (and their effects) in the future; the need for political adjustments and constructing a 'turning point' in the policies and in the economic and social dynamics of EU is thus avoided.

It's a fact that due to the mentioned deficiencies of the Semester (primarily in the monitoring of growth – mainly the failure to identify false growth – rent seeking, deteriorating the economic and social situation), CSR and NRP fail to make some important conclusions that are not without grounds (at least for Bulgaria):

First, the type of economic growth departs substantially from the type of economic growth laid down in Europe 2020 Strategy.

Second, the achievement of the social goals laid down in the 2020 Strategy is also in question because, given the present type of growth, the economy can hardly be in a position to succeed, even if there were increased growth rates.

Thus, it could be argued that the goals of the basic documents of the European Semester contradict the goals of the Europe 2020 Strategy and eliminate the conditions needed to achieve these goals.

Third, the achievement of officially declared goals of the European Semester itself is also seriously questioned.

If these conclusions are really well-grounded and if they were made, they would certainly lead to another vision – the EU economic and social dynamics needs serious changes and corrections, which means that existing policies (economic, social and other) need a 'turning point'. But instead of analytically identifying the need for a 'turning point' in the economic policy and dynamics and define the major steps to achieve such a turn, AGS reports that we

already have a 'turning point' in the crisis dynamics, implicitly suggesting that this is probably due to the economic policy. In this way, basic aspects of the political and economic realities simply get frozen. Their social impacts are also frozen.

In short, basic aspects of the crisis get frozen.

The Alliance observations show there is no significant and steady 'turn', and the assessment of policies both on national and European level, sounds too critical. However, there are solid grounds to be critical.

### **3. Other special features of the Semester**

**A. A central feature** of the Semester, which is quite striking, **is the considerable breach between the officially declared Semester goals and the tangible results** from the processes taking place (a large part of which are skipped in the monitoring).

How can we account for this breach between announced goals and actual results? One reason might be the unexpected effects from the undertaken political actions (legal frameworks, current policies); it is well-known that such unforeseen consequences always occur. However, the breach could be due to a deep discrepancy between political actions to achieve the officially announced goals and the goals themselves (emerging from the crisis and eliminating its negative social repercussions), or, in other words, the breach could be due to the inadequate policies implemented.

The project of the Bulgarian Alliance shows that the inadequacy of the applied policies is the major factor causing discrepancy between the announced goals and the tangible results actually achieved. Let us repeat – the reason for this discrepancy (between announced goals and the political measures undertaken to achieve them) is the distorted monitoring and the badly identified risks (causes for the problems observed).

For instance, the Semester documents have clearly identified such problems as insufficient economic growth, low employment rates and low labour cost, insufficient social protection level (shortage of resources for social protection), low income for a large part of the underprivileged groups, low living standards, etc. These are the actual effects from the social and economic dynamics (the crisis). The officially announced goal of the public policies (the Semester) is overcoming the crisis and remedying these effects.

But, as shown by the assessments presented by the Alliance, by statistical data and the results from numerous studies, these negative social impacts not only persist, but tend to increase. This is a sure sign of inadequacy of policies, and the inadequacy of the political measures is due to the fact that they have been constructed based on a wrong idea about the economic realities and is focused at other risks. The monitoring does not notice the 'false growth' and the way this growth arose – a process of deep reconstruction of the distribution of income and wealth in the Union; the concentration of income and wealth within a small circle of beneficiaries. The monitoring does not notice the dismantling of the so-called European social model in a number of Member States (others did not figure out at all what the Model is about). However, the false growth and the disassembly of the European social model have inevitably increased inequalities and amplified all other social consequences that, according to official declarations, the policies aim to wipe out. The political priorities and measures cannot eliminate the undesired social effects because they are oriented to other risks. Moreover, the focus on financial stability – if it can be achieved – would contribute to stabilizing the existing ratios in the distribution of GDP (and the factors determining these ratios), thus also stabilizing the undesired social effects from the distribution – the effects whose elimination is an officially announced goal of the policies.

In Bulgaria, however, there are other consequences – the central goals declared – financial stability, competitiveness, growth (poverty reduction, resp.) are not being achieved, and therefore the recommended measures are not an effective tool to achieve them. But the same measures are fully compatible with other (real) effects – expansion of income inequalities, blocking of growth, poverty increase. In this way the complex of political measures generating these effects (curbing social expenditure, reducing the labour cost, implementing specific taxation schemes, etc.), although it is officially focused on the achievement of the announced goals – financial stability, competitiveness, growth, actually generates other effects.

### **B. The lack of a definite policy is also a policy**

The presence of a breach between the official, publicly announced goals of the Semester and the real changes occurring in economic and social realities are a sure sign for the existence of two ‘layers’ of policies – one official, public, but ‘inefficient’ and incapable of achieving the unannounced goals, the other – unofficial, unannounced publicly, but effective in attaining definite outcomes that have not been announced as official goals of the public policies.

The policies belonging to the second layer are applied in the way considered in this report – paying no attention to important processes taking place and to the deeply-rooted reasons causing these processes. As no influence is exerted on these processes (visible policies), they continue generating negative impacts. Although the negative impacts from these processes are recognized and are qualified as undesirable, their dynamics remains unaffected because the political measures are oriented in other directions. Hence, this layer of policies can be called ‘the invisible policies’ or policies of inaction.

The presence of such layer of invisible or dark policies did not pass unnoticed by a number of observers and civic structures. Many national European anti-poverty networks have long emphasized that they often face the ‘lack of political will’ to undertake definite measures. In fact, they run into policies of the second layer – invisible, dark policies implemented through inaction.

The careful observation of the course of the European Semester shows that the National networks have had their reasons – the Semester is really abundant in multiple elements of policies of inaction.

Ultimately, the ‘second layer’ of the Semester allows, without explicitly underlining this intention, to confirm the current course of economic and social policy has been right, and to provide grounds to continue the same course in the future in spite of the decisive disapproval of the majority of EU citizens and the considerable damage suffered by a large part of EU citizens, economies and societies in the recent years, and in spite of the strong and growing euro scepticism.

### **C. Fundamental form of social exclusion**

According to EAPN, the participation of citizens and their organizations means above all things participation in the political decision-making process. Observations of the practice of participation often indicate that it is weak – both from the perspective of the forms of participation and from the point of view of the actual influence exerted on decision-making.

The way the Semester goes makes no exception from these observations. The weak influence of civic structures has been explicitly emphasized by Frederic Lerais, who points out that many national trade unions have not been consulted in conducting AGS. A report of EAPN features the same finding about the national NGO networks involved in combating poverty. Even if these structures had been consulted, this does not guarantee their practical influence as

there are no efficient instruments to exert such influence.

The procedures employed to conduct AGS and formulate the Recommendations do not contain enough guarantees for participation and influence by trade unions and NGOs. Their participation is focused mainly on the preparation of NRP. This is a key problem because NRP are largely influenced by AGS and CSR. If the civic structures have not participated directly and actively in AGR and CSR, they have to accept their results on trust or create an alternative AGS/CSR. But civic structures do not have adequate resources and rarely resort to such practice (although there are remarkable exceptions). So, the poor participation in AGS and CSR strongly reduces the overall efficiency of the participation. Civic participation serves as a decoration for a political decision-making process, which suffers from a serious deficit of participation.

On the other hand, it has to be mentioned that in CSR there are quite clear traces of private-group interests, which might be (and often are) to the detriment of more general societal interests of reaching growth and development. We can ask the question of how similar interests manage to sneak into CSR documents.

But the previous consideration of the Semester shows there are other reasons for the weak participation (and influence) of civic structures in the political cycle.

First and foremost, the specific features of the Semester discussed above can be singled out as such reason.

There is no doubt that the silent pursuit of unannounced political goals by ignoring problems and by inaction is improper – at least from the point of view of political democracy and the principles of good governance (transparency, accountability, participation, etc.). In fact, we are talking about elements of manipulation in key components of the European Semester process.

What was said particularly concerns the two layers of policies whose roots fall into the specific monitoring of economic and social realities (control over the knowledge and the politisation of the knowledge about these realities).

It is quite difficult for civic structures to oppose this particularity effectively – it requires resources and efforts that the structures usually do not have and are not able to make.

That's why the participation of civic structures in shaping policies and in the political debates takes place mostly on the first layer – official, visible and public. The second layer of the policies falls outside the debates and outside the participation. However, it is namely this second layer of policies that has the most significant influence on social and economic dynamics. To penetrate in it is extremely difficult and even professional academic scientists run into serious difficulties in trying to do that – due to the restrictions imposed by scientific policies and the programmes for funding scientific research.

Thus, the emergence of two layers of policies and the participation (not particularly efficient) of civic structures primarily on the first layer is actually a fundamental form of social exclusion.

#### **4. Deficit of political democracy**

The decorative civic participation generates deficit of citizenship and democracy, but there are also other reasons to claim that the European Semester suffers from deficit of political democracy. According to a commonly shared opinion, the deficits manifest itself in the fact that the executive power (the Commission) has a very strong influence on the political decision-making process at the expense of the influence of an institution like the European

Parliament. The major source of influence of the executive power is the control of the executive power (the Commission) over the way the European Semester runs. More specifically, as main pillars of this control we can indicate:

First, key phases and documents of the annual political cycle – conducting AGS and drawing up CSR – take place under the exclusive control of the European Commission.

Second, from the point of view of the role they play in the European Semester, the separate phases (the corresponding documents) have a quite clear hierarchical organization – the central role is played by AGS and the Country-specific recommendations.

Third, the combination of the two aspects mentioned, creates grounds for strong domination of EC in constructing the Semester basic documents. Although the Parliament discusses the proposals of the Commission and approves them, this function assumes a formal character and its opportunity to exert influence gets narrower due to the same reasons that restrict the influence of civic structures.

In addition, the Commission has also other instruments for applying pressure on (some) national governments to adhere to the policies laid down by the Commission.

In the end, considerable opportunities for control over the Semester are concentrated and centralized in the Commission.

This does not in any way contribute to the strengthening of political democracy in the governance at EU level.

The strong influence of the Commission on key components of the Semester allows to impose certain types of policies the EC has preferences for, regardless of the preferences of other European institutions, national governments and social players. The possibility to identify and remedy political errors is also strongly limited.

The final result is grave erosion in the possibilities to build an inclusive society – as it was described in the very beginning of this report. The inclusive potential of the policies themselves strongly decreases as well – so does the social and economic dynamics the policies shape.

## **5. Conclusion**

An important note: The Bulgarian alliance for democratic, social and sustainable European Semester does not claim its positions on the Semester are necessarily valid EU-wide and indisputable. We fully agree that our views might be influenced by specific Bulgarian problems.

However, the survey of the Semester under consideration raises questions that are worth being carefully verified.

The key question is whether the ‘construction’ of the Semester itself does not imply the possibility to restrict the democratic nature of the annual political cycle, to concentrate too much power and authority in the European Commission and use this power for shaping policies which induce serious criticism? Is there a distortion of policies and of the Union’s social dynamics? Doesn’t this limit the role of other European institutions? Don’t the latter face a ‘fait accompli’ when they get the results from AGS and the CSR draft, although they have the right to approve (or not) the presented results from AGS and CSR, but will not have as much chance of verifying thoroughly these results. How could it be explained that some parliamentary groups have supported the development of an alternative AGS (which – this is also interesting – is called ‘Independent AGS’)? In what sense is the alternative AGS independent – not dependent on the Commission maybe? Similar questions on the role of

other social players (besides the European institutions) arise referring to the participation of civil society organizations in the Semester, as well as regarding the opportunities of national governments (NRP and other documents, respectively) to ‘introduce’ and coordinate the authentic (most significant) national priorities into the general political framework created by EC; is there a risk of making the European political framework fixed by EC a Procrustean bed for national policies and development; whether and to what extent AGS and the Specific Recommendations reflect (or possibly ignore) the specifics of the social and economic development of each Member State; to what extent NRP, largely a function of AGS and CSR, manage to identify the authentic (most significant) national priorities. Do the proposed political measures really lead to the achievement of the announced goals and is there a discrepancy between the goals and the measures undertaken to address them? All these questions require most careful and serious assessment on the capacity of the European Semester throughout the last few years to implement the Europe 2020 Strategy (we would not comment to what extent the Europe 2020 Strategy works in the interest of EU citizens). The validity of these questions is confirmed by the review of the Semester course presented in our previous discussion above.

Taking into consideration its own answers to the questions above, the Bulgarian Alliance proposes several ideas for possible improvements in the European Semester.

## **II. RECOMMENDATIONS OF THE ALLIANCE**

The review on the way the European Semester runs, as well as the assessment on the quality of management through the Semester and its social usefulness give enough grounds to make several recommendations.

I. AGS should try to find more realism in its idea about the state of the dynamics of growth, the economies and societies. For this purpose, at least two important changes will be needed.

First, two central blocks have to feature in AGS – a) identification of particularly important problems (risks) in the Member States and b) assessment on the effects of the policies implemented. This change would also improve the quality (social usefulness) of CSR and of the overall Semester process.

Second, it is particularly important to differentiate the assessment on the growth by separate Member States, or at least have in mind several areas: North-South; West-East; core-Eurozone-periphery. Without such differentiation AGS becomes a routine and inertia procedure. A similar approach is much needed in crisis conditions when not only an overall (pan-European), but also sub-regional analysis will help address the issue.

Third, early warning analyses and signals are extremely useful if they forecast social and economic shocks 2 or 3 years beforehand and if they suggest a scenario to prevent (mitigate) them. The steadiness of governance can be improved if follow up documents are added to early alerts – lessons learned and recommendations made based on previous risk/crisis situations.

II. The major step to achieve the above improvements is to assign the monitoring to a configuration of stakeholders – civic structures and independent academic (public) institutions or research groups, trade unions and NGOs. Thus, there will be at least two effects: a) to eliminate the fundamental defect of the Semester – the too strong influence exerted by the European Commission on AGS (this defect generated the idea to develop a parallel AGS or

iAGS)<sup>23</sup>; b) to loosen the loop in which scientific policies have tightened social sciences and social analysis.

III. To achieve a really wide civic participation in conducting AGS, the so-called participatory action research can be employed, involving directly representatives of the major target groups along with organizations of the civil society and academic scientists. This change can be also qualified as starting a bottom-up approach for the basic instruments of the annual political cycle. Among other things, this will allow taking into account the specific conditions in the Member States. A similar change would not in any way harm the democracy in EU. Moreover, according to the opinion of many scientific experts and citizens, democracy in EU has been seriously undermined.

IV. The proposed changes will allow looking for an adequate answer to another question. Data for the last few decades clearly show there are long consecutive cycles of periods of growth and periods of crisis and their social aspects (for instance, the ‘waves’ of industrialization - deindustrialization – reindustrialization). On that account, ‘dynamics without any progress’ on key topics and central issues of society can be observed in long-term plan. Moreover, observations over the same periods reveal that the policies themselves substantially contribute to the emergence of such cycles. This cyclical nature, influenced politically, causes serious damage to citizens and societies and has to be reined in. The key instrument to achieve that is the decisive democratization of political decision-making processes

V. The last proposal refers to the period of drawing up the main documents supervised by the Alliance. The period of 1 year to prepare these documents is too short, which impairs the flow of the procedures, the quality of the documents and their social impact. Extending the cycle period would probably bring certain benefits to the Semester.

According to the Bulgarian Alliance, such changes would have a much better and socially meaningful effect than keeping the structure and course of the Semester in its present form.

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<sup>23</sup> Independent Annual Growth Survey, First Report iAGS, 2013; see also Watt, Andrew, Independent Growth Survey (IAGS report) presented at the 6<sup>th</sup> Annual TURI Conference, Sofia, 23-24 June, 2014