The challenge of redirecting reforms and resources towards the human factor

The neoliberal model of economic development promoted by the IFIs and imposed by the Bulgarian government has brought the country to a turning point: further economic growth and full integration in the EU cannot be sustained without income convergence with the EU and greater labour market participation, qualifications and skills. This calls for efforts to reduce poverty and inequality, promote social inclusion and integration in the labour market, and achieve a high and sustainable level of education.

Bulgarian Gender Research Foundation
Bulgarian-European Partnership Association

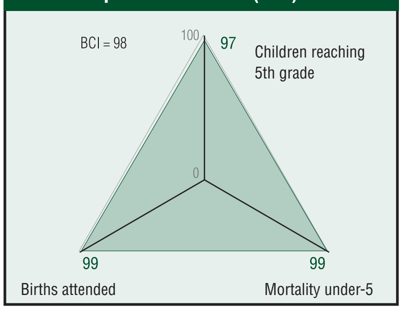
Recent economic analyses undertaken by international agencies, including the World Bank, have highlighted the need for a major shift in the allocation of resources in Bulgaria. The pressing need for new reforms to increase productivity, per capita income, competitiveness and efficiency, according to the latest neoliberal discourse, is in fact the need to invest in fundamental human rights. It means redirecting reforms and resources towards people, which is also the only way to curb the severe demographic crisis and to meet the goals and commitments of the EU Lisbon Agenda.

Contrary to the expectations and rhetoric of the major trade players and the international financial institutions (IFIs), international trade and structural adjustment programmes (SAPs), tend to increase inequality and cause so-called “immiserating growth” (Joekes, 1999). But it is precisely this model of growth, followed by the Bulgarian governments during the transition, that now poses an obstacle to full integration in the EU, which requires more equal and competitive partners.

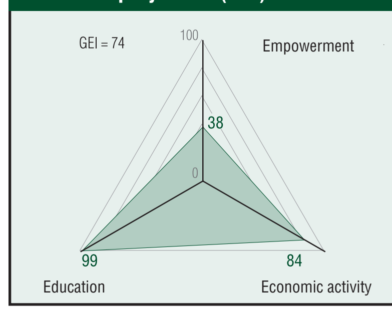
The very promoters of this model, such as the World Bank, recognize its failure by admitting that reforms did not bring about the desired results. Consequently, they now recommend new ones, including budgetary reforms and resources reallocation. Above and beyond any differences in language and interpretation, one thing seems clear: that reforms and restructuring can no longer ignore the human factor, which is central for achieving sustainable economic development, and this fact has its budgetary implications.

According to the World Bank’s assessment, over the last seven years Bulgaria “has made impressive progress towards long-term stability and sustained growth” (World Bank, 2006a). Average growth reached the levels of New Member States (NMS-8) at about 5% per year between 2000 and 2004. Despite this overall positive performance, however, it is recognized that Bulgaria is still one of the poorest countries in Central and Eastern Europe. In 2003, the country’s per capita income in PPS (purchasing power standards) was 30% and 57%, respectively, of the average level in the European Union-25 (EU-

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



25) and NMS-8 countries. Given Bulgaria’s large income gap with EU-25 and its rapidly aging population, serious measures in the labour market and social sector are needed if the country’s accession to the EU is to result in sustained and meaningful improvements in its standards of living.

Aging population leads to shrinking labour force

One of the most daunting obstacles facing Bulgaria is its negative natural rate of population growth (about -0.7% per year) which, together with net outmigration (about -0.1% per year), has resulted in negative population growth averaging -0.8% annually during the 1990s and early 2000s. As a result, the working-age population is declining rapidly, while the aging population is growing equally rapidly. It is estimated that in 20 years the working-age population will have shrunk by 19% and the population over 64 years of age will have increased by 17%. In the meantime, Bulgaria currently has the second-lowest labour market participation rate (49.4% versus 58% in EU-25 in 2003) and lowest employment rate (43.6% versus 53% in EU-25 in 2003) in Central and Eastern Europe.[1] As a result, meeting the Lisbon Agenda criteria of increasing the employment rate to 70% by 2010, which implies increasing labour market participation and reducing unemployment levels, seems highly questionable, if not impossible. Moreover, productivity growth cannot compensate for low labour market participation. Even if productivity were to increase, without the needed increase in labour market participation, Bulgaria’s per capita income would remain below one-third of the EU-25 level.

Therefore, trapped in the results of reforms that led to demographic crisis and abstract growth, without taking into consideration the human factor, Bulgaria faces the challenge to find a way out, namely by adjusting budgetary flows to the Lisbon Agenda.

Investing in productivity

In this respect, overemphasizing the importance of the prospective EU funds for the 2007-2013 period – the estimated net amount is only EUR 5.5 billion, bearing in mind the agreed contributions of Bulgaria to the EU budget – would divert attention from the real problem. Bulgaria urgently needs to mobilize its domestic resources through more effective spending in the public sector and mainly through productivity growth. The effects achieved by increasing productivity will be three times greater than by merely raising public expenditure.

Shifting resources from lower to higher productivity sectors would require radically different investment policies to the ones the Government has favoured so far. In fact, although significant in quantitative terms, FDI inflows have tended to go to sectors that are oriented towards the domestic market and are generally characterized by lower productivity, such as financial services, real estate and tourism. The expansion of the services sector has been more pronounced than in the NMS-8. Externally oriented activities, where productivity is higher due to increased competition, tend to be in unskilled, labour-intensive, higher energy-consuming sectors,

1 National Statistical Institute. <www.nsi.bg/Population_e/Population_e.htm>.

TABLE 1

Consolidated State Budget by Function (in BGN million)

	2003 Reported	2004 Reported	2005 Programme	2006 Programme	2007 Projection	2008 Projection
I. General Government Services	**1,097.8**	**1,115.2**	**1,232**	**1,546.1**	**1,374.1**	**1,419.9**
% of GDP	3.2%	2.9%	3.0%	3.4%	2.8%	2.7%
II. Defence and Security	**1,787.7**	**1,946.4**	**2,086.8**	**2,345.2**	**2,440**	**2,667.7**
% of GDP	5.2%	5.1%	5.0%	5.1%	5.0%	5.0%
III. Education	**1,504.7**	**1,652.4**	**1,798.9**	**1,899.6**	**2,094.3**	**2,272**
% of GDP	4.4%	4.3%	4.4%	4.2%	4.3%	4.3%
IV. Health Care	**1,697.7**	**1,769.1**	**1,777.7**	**1,997.4**	**2,109.5**	**2,289.1**
% of GDP	4.9%	4.7%	4.3%	4.4%	4.3%	4.3%
V. Social Security	**4,805.2**	**5,238.4**	**5,596.5**	**6,169.3**	**6,431**	**6,766.2**
% of GDP	13.9%	13.8%	13.5%	13.5%	13.2%	12.8%
VI. Housing, Construction, Public Works, Public Utilities and Protection of the Environment	**497.3**	**586.3**	**946.8**	**981.0**	**1,106**	**1,209.8**
% of GDP	1.4%	1.5%	2.3%	2.2%	2.3%	2.3%
VII. Recreation, Culture, Religious Activities	**286.1**	**303.7**	**286.1**	**330.7**	**318.3**	**335.6**
% of GDP	0.8%	0.8%	0.7%	0.7%	0.7%	0.6%
VII. Economic Activities and Services	**1,621.8**	**1,838.5**	**1,786.4**	**2,100.6**	**2,032.3**	**2,291.8**
% of GDP	4.7%	4.8%	4.3%	4.6%	4.2%	4.3%
IX. Expenditures Unclassified Within the Other Functions	**770.1**	**748.8**	**1314.3**	**1100.5**	**1212.1**	**1179.2**
% of GDP	2.2%	2.0%	3.2%	2.4%	2.5%	2.2%
TOTAL EXPENDITURES	**14,068.5**	**15,198.7**	**16,461.5**	**182,588.0**	**18,853.4**	**20,158.6**
% of GDP	40.7%	40.0%	39.8%	40.0%	38.7%	38.0%

Source: Government of Bulgaria (May 2005), Budget Projections for the period 2007-2008; and Budget for 2006.

such as textiles and wood processing, which represented about 41% of Bulgaria's total exports in 2003. Capital and skilled labour-intensive exports, in contrast, reached a share of about 29% of exports. Therefore, in addition to very low labour market participation, a broad share of employment remains in largely unproductive segments of the economy or in activities where productivity is stagnant. It is obvious that maintaining a large number of workers in low-salary, low-skilled sectors at high risk of exploitation, such as the garment industry, does not increase productivity.

Investing in human capital

Investing in human capital means not only shifting resources between sectors but also investing in raising the standard of living, and in the health and education of the country's citizens. In addition to the extremely low average salary in Bulgaria and a minimum salary of around USD 100, the subsistence minimum for a family with two children had risen to USD 954 by early 2006. According to trade unions, between March 2005 and March 2006 alone, life in Bulgaria became 10.9% more expensive. These trends left three million Bulgarians under the poverty line (set at USD 117 per household member) and 55% of citizens at risk of poverty. Raising the living standards of members of vulnerable groups and their integration in the labour market should be priorities for mobilizing public resources.

Investing in upgrading labour skills and education is another major direction for reallocation of state budget funds and further public expenditure restructuring. The main tasks are improving the quantity and quality of human capital and access to education by vulnerable groups, as well as strengthening the links between the skills acquired in the education system and those needed in the job market. This can be achieved through more resources for education and vocational training and more effective spending of public resources. Optimizing expenditure on education involves quality-enhancing inputs, such as the modernization of curricula, textbooks, and teaching materials and teachers' wapes and qualifications. With average wages close to the overall national average, Bulgaria currently falls among the countries with the lowest-paid teachers.

This is a major point of disagreement with the advice of the IFIs, which discourage increased public spending on education as a share of GDP and instead recommend "better outputs with the same cost" and decreasing the role of the state by expanding the role of private education providers. These recommendations from the IFIs, if followed by the government, will lead to an even deeper crisis in the sector, similar to what has happened in the health sector and the failure of a series of reform programmes undertaken on their advice. State expenditure on education was 4.3% of GDP in 2004, which is significantly lower than in other European countries, and specifically the NMS-8, for instance: Estonia 5.7%, Hungary 5.5%, Latvia 5.8%, Lithuania 5.9%, Poland 5.6%, Slovenia 5.9%.[2] Instead of the IFIs' advice, the Government should follow the example of the NMSs, which obviously took the appropriate measures in order to meet the Lisbon Agenda requirements.

Reallocation of resources towards education and vocational training is fully possible in the framework of the current state budget. For example, the share for Defence and Security of 5% of GDP in 2005 is a heavy burden for the budget and the citizens. The share for Defence in particular was 2.3% of GDP in 2004, an amount assessed as very high by the World Bank economic analyses as well. Comparison with the defence share in the NMSs – which are also NATO member states – is very indicative: Estonia 2%, Hungary 1.4%, Latvia 1.7%, Lithuania 1.6%, Poland 1.8% and Slovenia 1.4%.[3] Clearly, the Government has to redirect resources from state security to human security.

Fighting corruption

Meeting the requirements of the Lisbon Agenda will also require stamping out corruption and improving the efficiency of the administration and the judiciary. These are conditions set by the European Commission for Bulgaria's full EU membership as of 1 January 2007. Despite the Government's efforts to convince the public of its efficiency in this area, a report from the Sofia Centre for the Study of Democracy, based on a country-wide survey earlier in 2006, argues that perceptions of corruption are increasing and the general view is that the boundaries between organized crime and public authorities, including the highest levels of government, remain porous.

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2 Data obtained from: Bulgaria, Ministry of Finance; IMF, Government Finance Statistics; Eurostat; and OECD.

3 *Ibid.*

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Promoting women's participation

Women's equal participation in the labour market and in education and training is a key element for meeting the goals of the Lisbon Agenda. There is a persistent trend of women representing an oversized share of the unemployed in Bulgaria. The ratio between unemployed women and unemployed men in the third quarter of 2004 was 54.7:45.3. A study of the first gender budgeting initiative in Bulgaria in 2005 showed that the programmes and measures included under the "Gender Equality" guideline represent a fraction of all programmes and measures to promote employment (0.61%), and the corresponding funding is 0.63% of the total amount. All of the funding comes from the state budget, and most of it is allocated to projects and jobs related to women's traditional gender roles, such as "Family Centres for Children" and "Stimulating Women's Independent Economic Activity for Child Care Services".

Women are very active in training and retraining programmes. The highest rate of female participation was seen in a national programme called "Computer Training for Young People": over 80% of the funds allocated for this programme for 2005 were used for the training of young women. There is also a relatively high percentage of women participating in the National Programme for Literacy, Qualifications and Employment (over 60% for the third quarter of 2004). Nevertheless, it is estimated that overall, the percentage of funds used by women is less than 20% of all programme budgets. This amount is far too low, given the fact that 60% of all long-term unemployed persons are women (Gender Project 2006 report). One promising sign for the future is the inclusion of the gender budgeting approach in the Draft Law on Equal Opportunities for Women and Men. ■

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Women's lives are disproportionately affected by cuts to public policies that support housing, education and training, care for children or the elderly, or access to the justice system.

Cuts occurred precisely in these areas a decade ago. The federal government slashed budgets for social housing, long-term care, home care, rehabilitation and mental illness, children's aid, legal aid, training and upgrading, immigrant settlement services, ports (air and marine) and terminals, maintenance and infrastructure budgets for publicly supplied services, as well as roads and bridges, public laboratories, safety inspections, colleges and universities. Unemployment insurance benefits and welfare benefits (provincially provided, contingent on federal support) were also slashed across the country.

These are the state-funded supports that can make or break lives, build or deplete communities.

Our top military officials in Afghanistan, Brigadier-General David Fraser and General Rick Hillier, concur with this view, making the case that the central issues to be permanently resolved in that theatre of war are things like access to clean water, schools, and the assured safety of women. They have said this process is about securing the future of the next generation, and may take a long time to achieve.[8]

What is happening within Canada runs counter to these goals. The cuts made a decade ago have still not been reversed.

Instead, our two senior levels of government have delivered over CAD 250 billion in tax cuts over the past decade. To put this in perspective, health care – Canadians' first political priority – saw only CAD 108 billion in renewed funding in this same time period (Yalnizyan, 2004, p. 8-9).

Now Canada seems to be on the verge of a new mindset that says it's time for spending again. But the latest federal budget makes it clear that the money won't be there for vital areas of social security. Rapid growth in spending is only good when it goes to the military.

Conclusion

Canadians should be concerned. The surplus is being squandered with no long-term benefits accruing to Canadian society. The military is being expanded without explanation or debate around this significant redirection of collective purpose. Millions of Canadians (and vulnerable populations around the world) have been abandoned by a Government that – despite huge fiscal capacity to intervene – views policies that target poverty reduction and gender equality as immaterial to the betterment of society and the economy.

A federal government seeking Canadian support to wage war will find it most readily if it is a war on poverty and underdevelopment, at home and abroad. ■

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In the case of Ghana, various studies have shown that the poor tend to bear a greater portion of the tax burden, both directly and indirectly. With respect to direct income taxes, most of the self-employed poor, especially women and petty traders in general, are often assessed flat taxes by the tax authorities at rates that do not always bear a proportionate relationship to their earnings. Thus, while salaried workers would only pay taxes on what they earn, most poor people pay taxes on incomes that they have yet to earn or may not earn at all. For example, a poor woman who is assessed GHC 10,000 (USD 4) daily tax by the Government – at a tax rate of 10% and based on the assumption that she will earn GHC 100,000 (USD 39) daily – may actually earn, say, GHC 90,000 (USD 35) instead. This would raise the effective tax rate to about 11% (GHC 10,000 divided by GHC 90,000, instead of the GHC 100,000 assumed by the tax authorities).

Indirectly, the poor incur a greater tax burden through the Value Added Tax (VAT) because they are forced to pay the same rates as consumers in higher income brackets. Recent figures from a district assembly in the Greater Accra Region, which is typical of the situation across the country, illustrates the inequity of the poor paying more taxes and not receiving a corresponding provision of social services by