European Union: opportunity or marginalisation?

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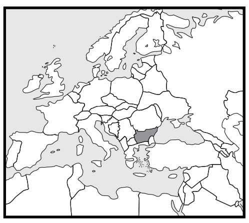

Manifestations of the contradictions between economic and social development intensified in Bulgaria in the year 2000. Economic and financial successes, publicly acclaimed by the government and the international financial institutions, disguise a series of persisting inequalities in the social sphere that will make it almost impossible to meet the requirements for European Union (EU) accession within the envisaged period.

Negotiations for full accession to the EU, tentatively set for 2007, began in March 2000. The positive integration process places serious demands on economic and social development in Bulgaria. The Bulgarian government, which benefited from its political position in the Kosovo conflict, will now face serious economic challenges to transform its willingness into reality.

Despite a registered growth in GDP of 4% in 2000 compared with -7% in 1997, 3.5% in 1998 and 2.4% in 1999,[1] Bulgaria's average GDP currently is only 22% of EU countries. This makes it an unsuitable and undesirable partner for European integration. With a *per capita* GDP of USD 1,500 and average monthly income of USD 120 in 2000, Bulgaria lags far behind EU countries, which have *per capita* GDPs above USD 22,000. It also lags behind the more advanced former socialist countries with *per capita* GDPs of USD 3,500.[2] An additional problem is Bulgaria's foreign debt, which amounts to more than 80% of its GDP.

The discrepancy between economic growth and living standards in Bulgaria was aggravated by losses and damages in excess of USD 80 million incurred as a result of the Kosovo crisis. The enduring conflicts in the region continue to challenge and place at risk the feasibility of a successful and quick accession to the EU.

Under these conditions, experts anticipate that accelerated efforts toward EU accession and a free market economy, if they are not supported by additional investments by the EU, could precipitate a new economic crisis and negatively affect social development indicators in the country.

Poverty and social exclusion – the sad reality

Despite an increase in average wage compared with 1996, many Bulgarians still cannot meet basic needs. Real inflation in 2000 was 24% and the price of basic foods increased on average by 35%. The minimum monthly subsistence income for one person in 2000 was estimated at about USD 150. The minimum amount needed for a child (including food, heating, transportation, clothes, health costs and education) is about USD 100, making the monthly minimum needed for an adult with one child USD 250. This is an unattainable sum for the majority of single mothers and other disadvantaged groups.[3]

After 10 years of economic restructuring, it has become clear that the Bulgarian government cannot cope with the problem of poverty. The poverty coefficient in Bulgaria (percentage of people living on less than USD1/day) was 12.1% for 1999, slightly lower than the 13.1% in 1998.[4] The poverty coefficient as percentage of households living below the *unofficial* poverty line of less than USD 23/person/month in 1999 was still high at 16.53%.[5] The majority of retired people are socially excluded, with the average pension in 2000 at less than USD 33.

A guaranteed minimum wage is fixed in Bulgaria by the Council of Ministers. It is currently less than USD 40, far below the subsistence minimum. That is why the government, when ratifying the European Social Charter in 2000, did not ratify Article 4, Paragraph 1, which obliges the state to guarantee a living wage for the workers and their families. The government, obviously, cannot guarantee this basic right to a minimum wage at this stage.

There is a big gap between the vast majority and the wealthy 5% of Bulgarians. High-income groups benefit more than low-income groups from public health services and expenditures. The poorest 20% of the population received less than 10% of total public health spending in 1997, while the richest 20% received over 30%. This gap in access to health care has widened since 1995.[6]

Rising unemployment

The international financial institutions have commended the Bulgarian government for its implementation of structural reform and financial stabilisation of the country. The privatisation process, however, was notoriously corrupt and non-transparent. About 70% of the state assets (including banking) have been privatised. Because of corruption and inconsistent government economic policies, privatisation has not had a strengthening effect on the economy.

By the end of 2000, one of the major social development indicators, unemployment, stood at 18%![7] This represents a considerable increase and continuation of a steady trend from previous years - 11% in 1995, 12.3% in 1996, 12% in 1998, etc. A more realistic rate of 27% is obtained by adding the estimated percentage of unregistered unemployed persons. Registered unemployment rates of 30-35% in some regions are far higher than in Sofia, where the rate is 4.47%. Women prevail among the unemployed (52.6% by the end of 2000). Because of strict requirements for entitlement and a short period of coverage, only 28% of the registered unemployed persons receive unemployment benefits.

Employee contributions to social security are the highest in Eastern Europe, reaching 39.2% of gross income for most workers. This places a heavy burden on workers, impedes employment and creates inequalities. Poverty and unemployment push people into the informal economy. Although no official data are available, it is estimated at about one-third of the economy.

1 World Bank figures.

2 Ministry of Finance.

3 "Podkrepa" Labour Confederation.

4 UNDP's 2000 Country Assessment Report for Bulgaria.

5 There is still no officially set poverty line in Bulgaria. This line should be defined as soon as possible given that strategies for poverty alleviation with UNDP and the World Bank are already under way.

6 UNICEF MONEE Report. "Women in Transition", 1999.

7 National Employment Office.

Disadvantaged groups - the gloomy statistics

Globalisation and pervasive poverty are blamed for the appearance of child labour in Bulgaria. An ILO study in 2000 found 6.4% of children aged 5-17 (about 83,000 children) work outside their homes in the informal sector. Of these, 55% are 15-17 years old and most work without permission from the Labour Inspection.[8] Related to this are the increased school dropout rates. A UNICEF study[9] identified economic hardship and unemployment as major reasons for school dropout. The teachers' trade union estimates that about 50,000 children dropout of school every year.

The deterioration of conditions for women with restructuring, though observed, has not been taken seriously by the government and the international financial institutions. Poverty, unemployment and weak safety nets affect women disproportionately. Women have been deprived of guaranteed protection of rights such as freedom from violence and the right to actively participate in political life. Recent amendments of the Labour Code continue a ten-year trend of "erosion" of social rights such as maternity and childcare leave. The elaboration in 2000 of a Draft Equal Opportunities Law,[10] which provides for protection against gender discrimination in employment and enjoyment of social rights, and for the establishment of national machinery for gender equality, is a step in the right direction.

The representatives of the Roma community are among the most vulnerable of groups. In 2000 in some regions, unemployment reached 80-90% within the Roma population. Over 50% of Roma families received less than USD 60 per month.[11]

The reformed social security system

Pension reform in 2000 introduced 3 pillars – pay-as-you-go, an obligatory private scheme and a voluntary one. Both private and public sectors are involved. From 2002, all young workers will contribute to the second pillar, which comprises a set of regulated pension schemes. In addition, workers will have the option of making voluntary contributions to a fully capitalised third pillar. The high transitional costs of building the pre-funded second tier, while continuing to meet pay-as you-go obligations, raise the cost of reform and jeopardize compliance with the fiscal limitations set by the EU.[12] With the new system, private benefits can be financed only by depriving the public pension system of needed revenues and vice versa. Both scenarios pose risks for workers' future retirement security. Few changes have occurred in disability pensions since the early years of transition, when standards were loosened to deal with increased unemployment.

Women workers have been affected disproportionately by increases in retirement age, elimination of redistributional elements in benefit formulas, and, in particular, by a new contribution schedule that penalises more heavily for periods of unemployment early in a career. A third issue is growing exclusion of workers in the informal sector.

The government should establish an effective poverty monitoring system, effective labour market policies and a fiscally sustainable social security system. It should undertake special measures to counteract the disproportionate effect of economic reforms on vulnerable groups. A crucial strategy would be to take advantage of the opportunity offered by EU accession to raise social standards by requiring more investments from the EU for social development. The formal legal harmonisation with the EU should be complemented by real mechanisms for guaranteeing social-economic rights of all citizens. ■

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8 ILO. "Problems of child labour during the transition", 2000.

9 UNICEF Regional Office for CEE. "Out-of- school youth in Bulgaria", 1999.

10 Ministry of Labour and Social Policy.

11 UNDP, Ministry of Labour and Social Policy, Information centre "NGOs against poverty". "Social integration of Roma in Bulgaria", 2000.

12 Treaty of Maastricht and the Protocols to Article 109.