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Betting on Bulgaria

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Fifteen years ago, how many Americans or Bulgarians would have imagined that in 2003 Bulgaria would be one of America's closest allies in Europe, that Bulgarian and American troops would be serving together in Iraq and that Bulgaria would have a smartly growing market economy?

How did this change from Cold War enemies to new NATO allies come about, and will the good economic news from Bulgaria continue

Bulgaria overthrew its last communist dictator in November 1989. Early in 1990, I was invited by the Bulgarian government to become the co-chairman of the Bulgarian economic transition project. We assembled a group of U.S. economic, legal and industry experts and, working with our Bulgarian counterparts, developed a plan to move Bulgaria from a communist country to a free-market, democratic, capitalist one. The plan, which even included a proposed constitution and updated commercial code, was submitted to the Bulgaria people, government and parliament in October 1990.

Unfortunately, few economic reforms were made because Bulgaria suffered a series of weak coalition governments and a chaotic political situation in the early 1990s. The so-called reformed socialists made a comeback in 1994, but were a thoroughly corrupt gang that looted the country and left it with hyperinflation. A second Bulgarian revolution took place in 1997 that ultimately installed a free-market-leaning democratic government.

A major reform was made with the installation of a currency board in 1997 that tied the value of the Bulgaria currency to the German mark (and now the euro). Back in 1990, our transition team had recommended that Bulgaria establish a currency board.

Unfortunately, it took a second bout of hyperinflation to finally convince the political forces we had been correct. The currency board has been an almost unqualified success, giving Bulgaria six years of currency stability.

Two and half years ago, the former Bulgarian King, Simeon Saxe-Coburg-Gotha (who was exiled by the communists when he was a child) returned and ran for prime minister. He was elected and has continued much of the economic reform program of his immediate predecessors. The result has been an economy growing by about 5 percent

annually. However, despite the good economic news, the former king did suffer a defeat in the local elections last month, probably due to having overpromised how quickly most people would see their standard of living improve.

Despite continuing problems with corruption, particularly in the judicial system, there are now many reasons for optimism about Bulgaria. The country has a brilliant and very able young finance minister, Milen Velchev, who has managed to not only balance the budget but begin to pay down Bulgaria's debt. The government has just introduced a flat 19 percent corporate tax rate (far lower than the U.S. rate of 35 percent, and lower than in most European Union countries), which will encourage much more foreign and domestic investment and, ultimately, many new well-paying jobs.

We, Americans who served as economic advisers in the early days of the transition, were naive about how difficult it would be for the Bulgarians to adopt our proposed reforms. Bulgaria had become a highly corrupt society, like other countries that suffered under communism. Even though most Bulgarians understood that communism and socialism did not work, they did not fully appreciate that for a capitalistic society to succeed, it was necessary to have honest courts that protect private property and that the people need to fulfill their contractual agreements.

We foreign advisers stressed privatization, tax and regulatory reform, free markets, free trade and sound money. We should have given more emphasis to the rule of law and the importance of honesty in all business relationships in order to have a properly functioning economy and civil society.

The critical mass of economic reforms and institutions have now been put in place, even though there is still much left to do. The first free-market think tank in Bulgaria, the Institute for Market Economy, was established in 1992. The most recent policy institute is the Bulgarian Council for Capital Formation, co-chaired by an American, Mark Bloomfield, who was a member of our original transition team.

Bulgaria should be a prosperous country. It has rich agricultural land, natural resources, great scenic beauty, a pleasant climate, and a well educated, talented population. The bet is, with its entry into NATO, preparation for entry into the EU, and continued economic reform, Bulgaria will grow even more rapidly and finally fulfill its potential as an affluent, free and civil society.

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