

FROM COMMUNIST TO CAPITALIST INDUSTRIAL POLICY: POLICY-MAKING
DURING LATE SOCIALISM, TRANSITION AND EU CAPITALISM

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To my family: my mother Maya, my grandparents Iskra and Hristo, and my father Lev.

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS.....	II
LIST OF FIGURES	V
LIST OF TABLES.....	VI
LIST OF ABBREVIATIONS.....	VII
1 INTRODUCTION.....	1
2 THEORETICAL PARADIGMS.....	12
3 RESEARCH METHODS.....	47
4 POLICY-MAKING DURING LATE SOCIALISM: THE 1980S.....	68
5 POLICY-MAKING DURING TRANSITION: THE 1990S	92
6 POLICY-MAKING DURING EU CAPITALISM: THE 2000S.....	114
7 CONCLUSION	127
8 AFTERWORD: LIMITATIONS AND POTENTIAL EXTENSIONS	143
APPENDIX 1: INTERVIEW CONSENT FORM (ENGLISH).....	146
APPENDIX 2: INTERVIEW CONSENT FORM (BULGARIAN)	148
BIBLIOGRAPHY.....	150
VITA.....	172

LIST OF FIGURES

Figure 3-1: Research Questions	64
Figure 4-1 : List of Priorities in the Eighth Plan.....	80
Figure 4-2: List of Priorities in the Ninth Plan	83
Figure 4-3: The Leading Role of Electronics in the Ninth Plan	85
Figure 4-4: Efficiency Targets in the Ninth Plan.....	86
Figure 4-5: Changing Structure of the Economy in the Ninth Plan.....	87
Figure 5-1: Purposes of the International Monetary Fund.....	95
Figure 5-2: TAL Overview Excerpt.....	101
Figure 5-3: Country Goals and Country Assistance Strategy (CAS) Outcomes	103
Figure 6-1: Bulgaria’s EU Membership Landmark Timeline.....	114
Figure 6-2: European Union Accession Criteria.....	115
Figure 6-3: List of Priorities in the National Economic Development Plan.....	119
Figure 6-4: List of Priorities in the National Development Plan	120

LIST OF TABLES

Table 3-1: Data Sources.....	66
Table 5-1: Bulgaria’s Transactions with the Fund from 1990 to 2009 (in SDRs).....	97
Table 5-2: Summary of TAL and SAL Projects of the World Bank in Bulgaria	100
Table 5-3: Official Inflation 1990-2007	104
Table 5-4: Gross Research and Development Expenditures (GERD) Per Capita	106
Table 5-5: Number of Budgetary Categories and Changes to Those	109
Table 5-6: Current Expenses as Percentage of Total Expenses.....	110
Table 5-7: Interest Payments as Percentage of All Expenses.....	111
Table 5-8: Selected Fluctuations in Expense Categories.....	113
Table 6-1: Gross Research and Development Expenditures (GERD) Per Capita	122
Table 6-2: Dynamics of Foreign Investment in Bulgaria	124
Table 6-3: Number of SME and large companies in the early 2000s.....	126

LIST OF ABBREVIATIONS

COMECON (CMEA)	Council for Mutual Economic Assistance
CoCom	Coordinating Committee for Multilateral Export Controls
EC	European Community
EU	European Union
IMF	International Monetary Fund
IT	Information Technology
NEDP	National Economic Development Plan
NDP	National Development Plan
NSI	National Statistical Institute
R&D	Research and Development
SME	Small and Medium Enterprises
UNIDO	United Nations Industrial Development Organization
USSR	Union of Soviet Socialist Republics

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ABSTRACT

In the end of the 1980s and beginning of the 1990s, the countries from the former communist bloc embarked on a journey to market capitalism and democracy. Studying Bulgarian industrial policy over a period of 30 years, I argue that the specific institutional and political history of Bulgaria shaped its industrial policies during the periods of late socialism, transition and EU capitalism. My project is an incorporated comparative study (McMichael, 1990) of Bulgarian industrial policy during periods of different transnational organizations. I investigate the role transnational organizations played in shaping Bulgaria's industrial policy by looking for answers to the same set of questions in each consecutive period and across different periods. Continuities between the periods indicate that past institutional and political structures produce similar industrial policies across the three periods. I also maintain that international institutional pressures affected Bulgarian industrial policies. Thanks to my integrated theoretical and methodological framework, I demonstrate that the Washington Consensus did not take into account the variety of capitalisms existing in the real world. I argue that some of those capitalisms, the European ones in particular, are closer to Bulgaria's late socialism than the ideal type composed by the Washington Consensus.

1 Introduction

1.1 Background

When the “revolutions” in Central and Eastern Europe “imploded” in 1989 I was a 13-year old about to apply to a so called “profiled” high school with a focus on French language. On November 10, I watched the broadcast of the public sacking of the party and government leader of Bulgaria Todor Zhivkov. The political leader and head of state for over thirty years did not seem to understand what was happening and pictures of his puzzled face are still being shown at anniversaries and media flashbacks of the event. In a way, the image of the inadequate leader now symbolize how senile and inadequate the regime had become.

The change, though, was introduced by politically savvy leaders who set up a mini-coup under the pretext of giving Zhivkov a long-awaited farewell, sending him into retirement, and replacing him with another high party and state official (Dimitrov, 2006). With some hints of political opposition emerging and sparse protests happening, the overall message was that changes were bound to happen, but no one knew the extent of those changes and how thoroughly they would transform the country.

In Bulgaria, Zhivkov was replaced on November 10. This followed the official withdrawal of Soviet troops from Afghanistan (February 15), Polish Round-Table negotiations (February-April), the Hungarian Communist Party Congress (October), and more importantly the fall of the Berlin Wall (November 9, 1989). Czechoslovakia’s “velvet revolution” culminated on November 28 while the Romanian military coup took place on December 22. The Soviet Union took a couple more years to crumble.

The early 1990s were an extremely stressful period for me. Coming from an intelligentsia background, I had never been in a situation where I was so insecure about my personal future, the future of my family, and the future of my country. My family's experiences from those times would be close to the experiences of regular Bulgarians coming out of the 1980s with – for lack of a better expression – a middle class status and having that obliterated almost overnight. Food shortages meant that even the simplest of needs had to be rationed. I still remember lining up at a grocery store at 4 AM in order to purchase bread or some basic lunchmeat. Food and basics shortages were followed by an explosion of prices of consumer products that reduced shortages, but severely limited the quantities that could be purchased.

These personal experiences were paralleled by the emergence of widespread phenomena like unemployment and poverty. Those phenomena had been virtually unknown in the former communist bloc. However, in the early 1990s both unemployment and poverty exploded. In 1993 over 1/5 of the Bulgarian labor force was unemployed. Even the lowest levels during the 1990s were double digits 13-14% in 1996 and 1999. The World Bank reported that in 1997, 36% of Bulgarians lived below the poverty line. Virtually any demographic statistic from that period indicates that the country was going through a thorough and prolonged crisis.

Later, I found out that the personal experience of chaos was tied to actual policies and strategies of implementing the switch from a command economy to a market economy. The term *switch* here is very useful because in the Bulgarian context of the early 1990s two public debates were clenched together – abrupt transition and gradual

transition. The debates were both political and public. The abrupt change approach claimed that one needed to flip the switch and light up the dark room, while the gradual change approach called for stages of planned movement between the old and the new. In the end, the “switch” approach won, supported by the Bulgarian public and political majority and international monetary institutions (International Monetary Fund, World Bank) that provided the financial backing.

Overall, the 1990s were rough. They were characterized by economic decline, frequent changes of governments, inflation and general political instability. A banking crisis exploded in the late 1990s brought by a crisis of liquidity in the newly formed private banking sector. The open defiance of Washington Consensus institutions by the Bulgarian government at the time added insult to injury by limiting the financial support the country could receive from outside. The country’s financial collapse – hyperinflation, currency devaluation, a huge budget deficit – resulted in a change in government and a currency board. The currency board introduced in 1997 imposed strict fiscal discipline by limiting the supply of money to available reserves in an “anchor” currency (the German Mark at the time).

Bulgaria’s transition from communism was arguably ended in the late 1990s with the introduction of the currency board that imposed strict fiscal discipline and by the privatization of 85-90% of all former state enterprises. Since then my country’s focus has been on pursuing and achieving membership in the European Union (EU) – a new kind of transition. Unlike the Washington Consensus institutions, the EU is a supranational organization that proclaims its participatory nature and equitable representation of all

members in all of its institutions and policies. In addition, its scope goes beyond the economic realm and its ideology is much more moderate than the neoliberalism of the Washington Consensus.

1.2 Statement of the Problem

Until recently, post-communist transitions were usually analyzed as transitions from authoritarianism to democracy with the implicit or explicit moral judgment that one is better than the other (e.g. Baker and Jehlička, 1998; Ekiert and Hanson, 2003b; Elster, Offe, and Preuss, 1998; Hancock and Logue, 2000; Linz and Stepan, 1996). The struggles of the emerging capitalist organization of transitional countries were seen as birthing pains, but necessary (e.g. Balcerowicz, 1995; Blanchard, Froot, and Sachs, 1994b; Williamson, 1994). Another typical assumption was that capitalism and free market go hand in hand with a democratic political order. Although unsubstantiated in academia (Przeworski, 2000), the idea that capitalist institutions both cause and are democratic institutions, was promoted by powerful political agents (local and international) within the region in the 1990s. Neo-liberal ideology equated free market with freedom and was behind most of the reforms during the transition (Pishev, 1994).

In the late 1990s and in the 2000s the defects of the transition models used by former communist countries became clear. The tenets of the Washington Consensus program and its practical application – Shock Therapy – have been critiqued as too rigid and unrealistic (Dahrendorf, 2008; Stiglitz, 1998; 1999; 2002). They have also been tied to the region's bad macroeconomic situation experienced in the early 1990s (Keren and Ofer, 1992; Lavigne, 1999). The Shock Therapy approach of sudden removal of state

control over consumer prices and exchange rates, trade liberalization, and privatization, dominated the scene while proponents of gradualism were few and far between, there was no single gradual alternative offered. However, in most transitional countries a number of components of Shock Therapy were actually introduced gradually (Brabant, 1998).

The response of Washington Consensus and Shock Therapy ideologues such as John Williamson and Jeffrey Sachs was to cite local governments' indecisiveness and incompetence as major reasons why some of the sudden reforms (e.g. privatization) took years to implement. In hindsight, they have also said that Washington Consensus principles were general guidelines rather than specific practical prescriptions. Regardless of the attempts of key figures to depart from the core prescriptions of the Washington Consensus, the effects of those prescriptions can still be traced and examined.

Critics of the Washington Consensus, including figures like Ralf Dahrendorf and Joseph Stiglitz, have questioned both the logic behind the ideology and the actual prescriptions of the Washington Consensus. They have pointed out that some of the policies prescribed by the program were glazed with unrealistic promises that were not delivered. For instance, an economic downturn is the expected result from liberalization by most modern economics standards rather than a short-term adjustment followed by economic growth. More importantly, the Washington Consensus and its institutions effectively excluded and disenfranchised the very countries they were supposed to assist. The countries in transition, much like the so-called "Third World Countries", were expected to pay for the services provided by the International Monetary Fund (IMF) and the World Bank, but had no say in the strategic decision-making of those institutions.

Analyses of transitions from communism have been abundant and rich. Typically, they are case studies or case comparisons using a variety of research strategies and data sources. The comparative studies of post-communist transitions usually attempt to construct typologies of transitions either using already established typologies (political cleavages, types of democracy or other dimensions) or generating native typologies. Case studies, on the other hand, focus on the uniqueness of one country's experiences and background in constructing a holistic account of how a specific transition has developed in a country or a sector within a country (e.g. Baker and Jehlička, 1998; Ekiert and Hanson, 2003a; Hancock and Logue, 2000; Keren and Ofer, 1992; White, 1991; Williamson, 1994).

Comparative studies attempt to present a general framework of transition. They usually acknowledge diversity within the former socialist bloc and the transitions that followed the collapse of communism, but comparative studies tend to look for individual commonalities or differences between prior conditions or experiences of transition. Due to the comparative strategies they use, they are less likely to acknowledge complex causal factors and processes. However, case studies of individual transition do not claim to represent general models of types of transitions, but rather complex narratives that show causality within one country's experiences. The only way case studies demonstrate generalizability is by being incorporated in edited volumes containing a few case studies of transitions across the region.

Due to epistemological restrictions, comparative studies in transitology lack comprehensive accounts of the role international institutions played in the past and

present of countries in transition. Case studies, on the other hand, might focus on the role of one institution during the period they cover, but lack detailed comparisons of institutions that dominated the national stage during different periods. Typically, comparative studies use the nation state as their relevant unit, being unable to step outside its boundaries, while case studies establish strict boundaries around a period and include limited observations of any preceding conditions.

To overcome the limitations of both strategies in the literature on post-communist transitions, I use a combination of incorporated comparison (McMichael, 1990) and sequential analysis (Haydu, 1998). In comparing three cases/periods – late socialism (Period 1), transition (Period 2) and EU capitalism (Period 3) – I do not assume independence of those cases. I use periodization for analytical purposes, but am interested in continuities and discontinuities across the periods. This approach allows the detection of policy-making processes present in two consecutive periods or ones that disappear in Period 2 and reappear in Period 3.

Hence, incorporated comparison generates conclusions that are both more grounded in actual experiences and establish complex causality (McMichael, 1990). Some of the observed patterns go beyond the case as the study makes the boundaries of the specific case of transition permeable. Potentially, this approach – its observations and underlying structure – can be used in similar analyses of other parts of the former socialist bloc. A flexibility that accommodates for local histories, cultures, and politics, is combined with more generic policy processes promoted by international organizations in a number of countries. The added value of incorporated comparison (compared to the

classical case comparison) is that it produces conclusions about both local and generic processes. It also allows the simultaneous integration of various levels of analysis: micro (individual actors), mezzo (groups of actors), macro (national institutions), and mega (international and supranational institutions).

Looking back at the tumultuous Bulgarian transition, I am interested in addressing questions regarding the inevitability of the policies of the Washington Consensus and the way they have affected the country's transition. Investigating the premises and effects of those policies is even more relevant as Bulgaria is a full EU member since 2007, and a number of policies from the 1990s are changed or discontinued. Furthermore, granted that EU policy-making is different from that of neo-liberal capitalism (represented by IMF and World Bank), I am interested in the continuities and discontinuities between Bulgaria's socialist and EU times.

I focus on industrial policies – public endeavors to initiate and sustain economic structural change – as a site where policy similarities and differences are most obvious. At the same time, studying industrial policies means focusing on an area that, if altered, has profound and sometimes immediate effects on all other spheres – social, cultural, and political. Specifically, I am investigating the ways in which Bulgaria's specific institutional history shapes its industrial policy during the period preceding the changes in 1989, the transition following those changes, and the period of transition to EU membership. Along with the overview of industrial policies during the 1980s, 1990s, and 2000s, I discuss the role international institutions (COMECON, IMF and World Bank, and EU) have played in the country's industrial policy-making.

I see Bulgarian experiences as a node from which general processes of policy transformation can be analyzed. I have several reasons to believe that and to find the Bulgarian case as analytically interesting: (a) Bulgaria's pre-1989 past; (b) the country's size; (c) the country's location. Before 1989, the country was a close ally of the Soviet Union – to the point of a joke that it was its 16th republic. This sarcastic observation seems to also have been shared in the West (Creed, 1998). Hence, a case where transition is ideologically more difficult is potentially a source of pronounced and easily observable processes of transition. A pendulum swinging wildly from left to right would have a more pronounced and easily observable motion than one that just shifts from one side to the other by tiny increments.

Another important factor is the geographical location of Bulgaria, especially relative to the most studied transitions – Poland, Czechoslovakia, and Hungary. South-Eastern Europe (i.e. the Balkans) is a marginal region relative to Central Europe with regard to foreign direct investment, membership in international institutions and financial support from those institutions. One could add to that the size of Bulgaria and how many (or how few) expanding market opportunities it offers. Size and location combined put the country in a position where the transition lasted longer – that is assuming that the transition is now over – and thus presenting more, longer, and richer policy-making processes to be analyzed.

In addition to addressing the theoretical and research design limitations in the literature, my analysis benefits from my own standpoint (see Harding, 2004; Neitz, 2003). My social, cultural, and personal background enhances my use of the available

sources and analysis. A child during the 1980s, a teenager and young adult during the 1990s, and a young professional during the late 1990s and the 2000s, I have observed the micro implications of a number of the policies I review. My familiarity with the popular discourse during the whole period has permitted me to identify key sources of information and my language fluency has allowed me to review original documents when possible.

Following the lead of a number of transitology studies, I use a variety of data sources. I rely on (a) first-hand experiences drawn from interviews with key actors, (b) official documents (e.g. five-year or seven-year plans and budgets) reflecting industrial policies, (c) academic literature in Bulgarian and Russian, (d) memoirs of former leaders, (e) official statistics, and (f) newspaper articles.

1.3 Summary and Plan of the Dissertation

The task of my project is thus two-fold. First, it aims at enriching the existing transitology literature by adding a debate on similarities and differences between policies thought to belong to mutually exclusive socio-political systems. Within transitology my study also invites scholars to acknowledge the ways in which national policy-making is influenced by organizations and institutions outside the boundaries of the nation-state. Second, my project introduces a research mix that refuses to exclude relevant factors from the research just because they do not fit in the research design. Incorporated comparison is a novel, although not new, way of outlining a process (e.g. policy making) as a unit of analysis and allowing for the units of observation to be located across different levels of analysis.

The next chapter (Ch. 2) presents a review of the relevant literature. I discuss how three distinct fields – transitology, institutionalism, and industrial policy studies – have informed my project. The text then proceeds with a discussion of my research methods (Ch. 3) discussing the varieties and benefits of comparative methodologies, arguing in favor of incorporated comparison, and outlining my data sources in more detail. The next three chapters are dedicated to policy-making during each of the studied periods: late socialism (Ch. 4), transition (Ch. 5), and EU capitalism (Ch. 6). In the conclusion (Ch. 7), I tie the trajectories of three former socialist champion companies with the changing contexts of policy-making.

2 Theoretical Paradigms

2.1 Chapter Synopsis

In the end of the 1990s, a number of countries that used to be called “communist” or “socialist” underwent significant changes in order to join the “capitalist” family.

During the Cold War, the two systems – capitalist and socialist – were typically seen as archenemies and were considered mutually exclusive. Following the fall of the Berlin Wall, experts from the capitalist world went to the East to draft transition programs and assist all those countries in their transitions. The transition program that emerged from the West contained a set of policies to be applied in each transitional country regardless of its cultural and historical heritage. The program called the “Washington Consensus” is now widely criticized, but in the early 1990s critiques were far and few between and the points from the program were followed and applied across the former communist bloc.

The goal of my study is to analyze how changes in the institutional and political history of a country shape its industrial policies. Those changes are tremendous, involving the collapse of one political, economic, social, and cultural system and the establishment of a new one. Hence, another goal of this study is to observe some of the disruptions and continuities in the policies pursued in the country during the transition. Accepting that local political, economic, and cultural past matters, I also look at how international institutions shape a country’s policy-making before, during, and after transition. Overall, my goal is to achieve a level of totality where policy-changes are studied relationally “with attention to their multiple interconnections” (Benson, 1977b:4).

The argument that emerges from the study has both ontological and epistemological implications. I present evidence that the one-size-fits-all approach to policy has not succeeded. Without enough accommodation for local input and customization, policies drafted by Western academics and applied by politicians in the former socialist countries have proved to be deficient in a number of ways. The Big Bang approach to transition – change everything at once – has created institutional ruptures that could have been avoided. Hence, old institutions can be dismantled overnight, but it takes a while to build new ones. Specifically, I argue that in the case of Bulgaria institutional patterns from late socialism and COMECON are being rebuilt during the pre-accession and accession to the European Union. Parallels between policies during late socialism and transition or EU accession are typically not drawn because socialist policies are constructed as incompatible with any market economy.

I spend some time discussing theoretical and methodological aspects before presenting the results of my study. This chapter provides an overview of the theories that have informed my research and analysis. The chapter follows a path from a more general theory- and epistemology-oriented discussion to a more specific, i.e. content-oriented, discussion. It starts with a discussion of the eclectic set of approaches typically labeled as “institutionalism” and their contemporary form of “new institutionalism”. I point out three important influences of the institutionalist tradition that have guided my work: critical theoretical stance, non-dogmatic methodological orientation towards processes, and multiple levels of analysis.

The chapter then proceeds with an overview of the interdisciplinary field of transitology – the part of academia that has been engaged in analyzing transitions from one system to another and from communism to capitalism in particular. I argue that the field of transitology has followed stages in its development that are similar to the ones in the development of the Washington Consensus. At first, transitology attempted to find one set of tools to study all transitions assuming that all former socialist countries had the same starting conditions and the same end down the line. The studies that came out of that paradigm observed serious variations across different transitions, but were unable to describe or explain these variations in ways other than that local government were not implementing the prescriptions properly. Recently, the field has accepted that starting conditions differ and that each transitional country's capitalism is bound to be different as is the case across the West.

I see Bulgarian experiences as a node from which general processes of policy transformation can be analyzed. There are several reasons why the Bulgarian case is analytically interesting. Before 1989, the country was one of the closest allies of the Soviet Union in the region. As I demonstrate later, the combination of export-oriented economy and dependence on Soviet markets should have indicated the magnitude of economic breakdown in the country after the loss of those markets. The country's location, on the other hand, is important because foreign direct investment was slow to flow, as it had to move across several borders. This made Bulgaria's transition slower and more problematic. Yet another reason why studying Bulgarian policy-making makes sense in the context of international institutions is the country's size. The amount of

autonomy a state like this can have in policy-making is limited. In addition, the size of the local market is typically big enough for any incoming large investor or existing one.

The chapter concludes with a section dedicated to the academic study of industrial policy and the ways researchers have approached and studied industrial policies over the past 30 years. The overview of the theories of industrial policy establishes important developments in the field that reflect the nature of the world's changing economies – from ones contained within nation-states to ones that have become increasingly regionalized and globalized. These three theoretical discussions together present the basis for my study and inform my conclusions.

2.2 Transitology

Analyses of transitions from communism have been abundant and rich. Typically, they are case studies or case comparisons using a variety of research strategies and data sources. The comparative studies of post-communist transitions usually attempt to construct typologies of transitions either using already established typologies (e.g. political cleavages, types of democracy) or generating native typologies. Case studies, on the other hand, focus on the uniqueness of one country's experiences and background in constructing a holistic account of how a specific transition has developed in a country or a sector within a country.

The field of transitology is the interdisciplinary field that analyzes transitions from communism to capitalism. It is similar to the institutional theoretical family because transitologists are sociologists, economists, political scientists, but also legal scholars and ethnographers. With such diverse representation, one would expect lively debates and

little (if any) agreement on the policies that should guide any given transition. I argue that, *au contraire*, the basic stances of transitologists have been very similar. Particularly during the 1990s, one could find very little dissent on the basic principles behind transitions.

I use the “Washington Consensus” metaphor as outlined by Joseph Stiglitz (1999) to illustrate how much agreement there was, until recently, in the field of transitology. The “Washington Consensus” referred to the shared consent of developed countries about the nature of the reforms to be introduced in the former socialist bloc. It thus referred to desired destinations (both political and economic) set from outside of the regions of Central and Eastern Europe and the former Soviet Union. The literature on transitions has been similar to the policies used in transitional countries – produced in the West, rigid and unrealistic/idealistic. The following paragraphs establish this argument and contrast contemporary transitology with that of the 1990s.

Throughout the 1990-s the field of transitology (with some exceptions) reflected the Washington Consensus metaphor in that it was setting up theoretical paths for the former communist countries that those countries needed to follow. The economist and political scientist corners of the field even assumed moral positions in making actual recommendation and reprimanding the governments that were not following those recommendations or deviating from the predetermined path. The primary concerns of the field were thus convergence (“When and how will the former socialist countries catch up with the West and become a part of it?”) and consolidation (“If complete convergence is

not possible due to historical and cultural factors, when and how will the former socialist countries become fully operational democracies with a market economy?”).

Current transitology has given up on the metaphor. Instead, it focuses on specific new states that have emerged from the former communist bloc (e.g. “fuzzy institutionalization”, the combination of democratic institutions and a “grey” sector of informal institutions). The actual experiences of countries like Bulgaria though are pushing for more significant changes in the field. Ideas and theories should be emerging from within those countries instead of being based on Western-constructed frameworks. This is the type of study that I am advancing.

A standing debate in transitology after 1989 revolved around the delineation of a specific path for post-communist transitions to follow – gradual or radical (Balcerowicz, 1995; Brabant, 1998). Debate is probably not the correct term to use since the Washington Consensus – the shared consent of developed countries about the nature of the reforms to be introduced in the former socialist bloc – determined the one right path to be followed. Critics of the “consensus”, e.g. Dahrendorf (1990) and Stiglitz (1999) have not been popular, while the father of the concept still claims that it never failed¹ (Williamson, 2002).

The two camps have also been described as constructivists and Popperians (Ellman, Gaidar, Kolodko, and Admiraal, 1993). Constructivists stood behind the idea that the same model of transition could be applied to all parts of the post-communist

¹ Although, more recently, Williamson (2004a) states: “When I first formulated the Washington Consensus, it really wasn’t written as a prescription for development.”

world and issues could be dealt with in a contingency fashion². Furthermore, constructivists advocated that any short-term troubles countries might run into were actually a great thing and anything that might get lost in the process was not worth keeping. Popperians, on the other hand, were stressing that transitions were likely to be works in progress for a long time and that replacing one utopian model with another would not solve issues of thorough social, economic, political, and cultural transformations.

Scholars within transitology have followed these contradictions in their work and have struggled when trying to explain and even describe them. Elster, Offe, and Preuss (1998) construct a model of Western capitalism that transitional countries are presumably heading to. The ideal state that is targeted by these countries is called “consolidation”. The authors describe two dimensions of consolidation that are theoretically characteristic of capitalist societies: (1) horizontal and (2) vertical. The horizontal aspect entails the adoption of a loose-coupling relationship between the political and the economic sphere. Vertically, consolidation is represented by the new institutional structure that the new economic relationships should rest upon.

Furthermore, the authors describe the actions that should be undertaken by post-communist countries in order to achieve the state of consolidation. Accordingly the first dimension requires reforms, including “the privatization of state-owned enterprises, the abolition of central planning and the liberalization of economic activities, as well as the trimming of state expenditure” (Elster et al., 1998: 156). The vertical dimension requires

² For example, real wages decline might be different from one country to another or inflation might be higher than projected. Still, variations of specific indicators does not jeopardize the overall model and can be tackled with specific macroeconomic policies (e.g. increasing interest rates to lower inflation).

provision of a legal background for the newly emerging market relations in order for these markets to work correctly.

The Western economic model, as constructed by the authors, seems to reflect a rational institutional approach to the transitions in former socialist countries. It assumes the existence of a final destination that is clear and “visible”. Capitalist economy is assumed to be “built from scratch”. The metaphor of “building” itself involves starting from a zero-level, having the ready designs, the materials, labor, and budget to construct something that is predetermined to its very details. Hence, it is implied that consolidated capitalism and the transition to it, is an equation where all variables are known. Differing values of those variables (i.e. local contingencies) might produce variations within the model and its results, but would not challenge the model altogether.

Elster, Offe, and Preuss (1998), therefore, proceed with looking at how the different CEE countries have (not) complied with the prescriptions and reached the desired state and goals. The authors stress two important differences affecting transitions in different countries thus resulting in different implementation of the reforms: (1) the legacies of the past and (2) the radical vs. gradual reform debate. Communist legacies, they argue, left the different countries with different social, psychological, and economic burdens. On the other hand, the disagreements over the nature of the reforms caused different transitional countries to adopt strategies that often were too unclear and not coherent.

The analysis of the transition towards capitalist consolidation of Elster, Offe, and Preuss (1998) fails to address some important elements that could influence that

transition. In the ideal type constructed by the authors, no attention is given to the active involvement of the Washington Consensus and the West in the transitional processes.

The thorough crises faced by the former socialist societies could not be addressed without help from “outside”. However, the assumption of shaping the former socialist economies according to the model constructed by the authors does not account for geopolitical considerations that would prioritize some countries and marginalize others as far as the involvement of the developed capitalist societies is concerned.

The authors follow the functional linear logic of a final point that is clearly defined and just needs to be reached. A “perfect” path towards the final state of capitalist consolidation and the winding specific routes adopted by various countries depending on their background coexist. The very existence of differences in policies and performances across countries, I maintain, somehow makes the “perfect” path obsolete. And the matter becomes even more complicated if one questions the existence of a known final destination and replaces it with multiple unknown destinations when looking at the different types of capitalism adopted around the world and the sustainability of the systems established in the post-communist countries.

Consistent with this type of thinking were the views of most policy-makers in the region and the actual policies implemented by local governments. Accordingly, the uniform prescriptions and largely similar policies lead to uniform consequences. In a Marsh-ian comparative fashion, Blanchard, Froot, and Sachs (1994a), analyze transitional reforms in a number of different countries under the neo-liberal transitional paradigm. For instance, in the early 1990s common for all transitional countries were issues like

sharp decline in output, large price hikes, change in the structure of exports (from East to West), slow privatization, slow restructuring because of slow privatization, and increase in the private sector (Blanchard et al., 1994a).

The Washington Consensus paradigm dominated scholarly analyses and actual transitional policies alike. The opposition, authors arguing that contextual complexity would make neoliberal utopian models obsolete, was there from the very beginning – ignored, but present. In the early 1990s Avineri (1992) warned that some of the cultural changes – namely the focus on national history instead of the history of the bloc – could increase importance of historical and cultural factors during transition. Although Avineri anticipates a resurgence of the pre-Soviet past as if Soviet rule froze time³, his argument equally applies to transitions affected by different historical paths within the former communist bloc.

Post-Washington Consensus literature tends to focus on specific trends and developments that vary from one country to another. The discussion of Outhwaite and Ray (2005), is particularly relevant since they use the Bulgarian example to illustrate a specific type of convergence. The authors define the general process of convergence as a gradual return to the path of industrialism and capitalism. The approaches defending general convergence would state that the imperatives of modernization and industrialization would inevitably draw societies that are not capitalist. Outhwaite and Ray counter this general argument by suggesting that several types of convergence

³ For example, he predicts that historically liberal and Western-oriented Czechoslovakia would be in the forefront of post-communist transitions to capitalism.

happened in the former socialist countries, but all of those were qualitatively different from the naturalistic idea of general convergence.

Outhwaite and Ray call the first type a heteronomous convergence – one that was (and still is) imposed on the countries in transition. The initial application of the neo-liberal paradigm of liberalization of prices, abolition of central planning, and privatization, has been universally applied in and to all former socialist countries. The imposition, of course, was not unilateral – by the West – and is combined with varying degrees of consensus supporting these policies. However, it is still a forced convergence since it favors a Western-constructed model of transition over one that is locally constructed. A more recent example of such convergence is presented by the processes of accession to the European Union requiring compliance with EU standards, harmonization of legislations and other processes of integration.

The second type of convergence in Outhwaite and Ray's opinion is represented by the Bulgarian case – fuzzy institutionalization. The authors observe this deviant/undesirable convergence in the context of Bulgaria. This convergence is illustrated by the emergence of parallel systems of governance that take place in the grey sector. Whereas the “white” sector is building up democratic institutions, the grey sector counters that with unofficial institutions that rely on criminal activity and corruption and try to run the economy and the polity of the country. The expansion of the grey sector in Bulgaria throughout the 1990s gives Outhwaite and Ray the reason to assert that such a development is indicative of tensions that make the general convergence argument obsolete. In the Bulgarian case, a heteronomous convergence was taking place officially,

while under the surface the institutions of that convergence were being undermined by parallel alternative structures.

The third type – the most desirable one – is what the authors call “Neo-convergence?” (Outhwaite and Ray, 2005:85). It is still a convergence, but one that reflects past and distant histories of the different countries. Accordingly, historical and cultural contexts shape each country’s convergence in a way that is unique. Outhwaite and Ray (2005) thus agree with Grabher and Stark (1997) that each transition creates and recreates its own context that makes it different from other transitions or from normal capitalisms. They argue,

The conclusion of this case study is that there is no necessary process of convergence around a particular configuration of economic and political institutions. Market logics are geared to private gain, not public good, and there is no necessary reason why the latter should arise from the former. Institutional regulation within a democratic polity is a public good but will require, to be effective, the active participation of NGOs, civil society, and probably some measure of external, transnational constraint, or heteronomous convergence.
(Outhwaite and Ray, 2005:85)

Contemporary transitology is thus very close to the premises of contemporary institutionalism. Both fields put emphasis on research that is sensitive to local contexts and avoid single-factor explanations. This allows them to be particularly suitable to analyze policy-making not just during transition, but also during the influence of different international institutions. In the following chapters, I demonstrate how different the institutional logics of COMECON, IMF, and EU are.

For instance, dominated by the USSR, COMECON used to work under the ideological premise of socialist economic integration, but never achieved the levels of

coordination between the five-year plans of its members that it was supposed to. Unlike COMECON, the World Bank and the IMF operate within Rostowian (1990) developmental logic. They both provide financial and technical assistance that furthers a country's short-term economic stability and infrastructure. The EU's scope is as wide as the one of COMECON, as it is based on political, economic, and legal integration of the member countries, but the approach to this integration is not dominated by any one member nation. Using specific industrial/economic policies to illustrate these differences would not be possible without the contributions of contemporary institutionalism and transitology.

2.3 *(New) Institutionalism*

Neo-institutionalism can contribute to transitology's increased attention to local and specific contexts. Although not focused on post-communist transitions, neo-institutionalism sets general ontological and epistemological standards that I use in my analysis of transition to capitalism. Concurrent with transitology's interdisciplinary diversity, neo-institutionalist thought draws on and integrates fields like sociology, economics, political science, and history. Furthermore, neo-institutional thought (specifically in sociology) puts emphasis on analysis of institutions that is always tied to local historical, cultural, and political contexts. Finally, by refusing to be a coherent theoretical paradigm and tolerating contradictions⁴ within its body of work, neo-

⁴ For instance, later I discuss an example of how an author claims that culture is the driving force behind industrial policies in one context while pointing to politics in another context.

institutionalism is highly compatible with the methods I use – incorporated comparison⁵ in particular.

These three features of neo-institutionalism – eclectic composition, sensitivity to context, and tolerance of contradictions – deserve more attention. In an overview of institutionalist theories Scott, shows the institutionalisms of three areas are rather different in their substance. Early institutionalists in economics, for instance, were calling for a reversal of the postulates of classical economics. In political science, however, early institutionalists established the basis for positivism in the field. Alternatively, the views of early institutionalists in sociology ranged from structuralist to interactionist foci. In all three areas, however, institutionalists typically searched for alternatives to the existing paradigms (Scott, 2001).

Similar to Scott, March and Olsen (1984) view neo-institutionalist perspectives as multiple alternatives, rather than as an alternative to the dominant paradigm. Although March and Olsen point out that neo-institutionalism could be assessed as one epistemological approach in social science, they discuss it as a set of specific challenges to the dominant theories in political science. March and Olsen (1984) argue that conceiving of neo-institutionalism as one epistemological approach in social science is problematic. What characterizes scholars working within the tradition is the search for contextuality beyond the existing canons. Typically, the search for contextuality includes historicity (in one form or another) and cultural analysis (analysis of culture).

Hall and Taylor (1996) praise new institutionalists for their insistence on and analysis of the political world. However, the authors point out that the assessments that

⁵ A detailed discussion of this method is provided in the next chapter.

neo-institutionalists present of the political world are not identical. Hall and Taylor (1996) separate new institutionalists into three broad types – historical, rational choice, and sociological. The authors describe historical institutionalists as “eclectic” because they bring functional and cultural analyses together in an attempt to spot path dependencies. Rational choice and sociological institutionalists on the other hand tend to focus on functional or cultural explanations respectively when analyzing institutions.

Accordingly, rational choice institutionalists focus on constructing models that explain and predict individual behavior within the context of formal rules that guide that behavior (i.e. institutions). However, sociological institutionalists are more concerned with demonstrating the importance of culture instead of establishing historical patterns. Although not as clearly delineated as in March and Olsen’s (1984) typology, the shadows of professional and academic fields are still visible: economics and political science (rational choice institutionalists), history and historical sociology (historical institutionalists) and organizational sociology (sociological institutionalists).

An even newer version of institutionalism has emerged under the label of “discursive institutionalism” (Czarniawska-Joerges, 1997; Schmidt, 2008). This approach treats institutions and institutional reality as text(s) thus offering a counter-paradigmatic framework for analyzing organizations and institutions. This framework shifts the researcher’s focus to processes (instead of structures) and historical (instead of diachronic/cross-section) analysis. The structural focus, for instance, is moved from informal rules or formal structure to language and narrative structures. The main claim

and contribution of discursive institutionalists is that they are able to redefine what institutions are and how they can be studied.

I have found this larger institutional thinking to be applicable to my study in terms of its general critical stance, the variety of methods it uses, and the multitude of levels it looks at (see Prechel, 2000). For a thorough analysis of significant systemic changes, one needs to keep an open mind to a multitude of competing viewpoints, interpretations, and developments. One particular kind of institutionalism is discussed next – an example of how institutional analysis can benefit from inconsistencies even across one's own research.

My research shows that the 1990s were chaotic for Bulgaria and its governments. In fact, some of the policies and practices of those governments were inconsistent within and between them. During that period, the state had no long-term strategic vision and was focused on patching everyday issues. At times the state was both subsidizing large public companies, micromanaging them, sanctioning some of their actions, and allegedly trying to extract campaign contributions from them. One cannot accurately analyze such contradictory approaches using a theoretical framework that assumes coherent and uniform policy-making on behalf of the state. Instead, contradictions should be embraced and analyzed, not discounted as an inconvenience.

The example discussed below shows how comfortable neo-institutionalists are even with contradictions within their own research. Such contradictions should be seen as a strength of new institutional analyses as they originate from a desire to construct arguments based on the contexts in which institutions exist. The example below also

illustrates the complexity of the particular substantive area my research focuses on – industrial policy. If industrial policy offers a useful way of analyzing the dynamics and variations within the capitalist system, it should be expected to have a lot to offer in cases of transition from one system to another.

2.3.1 Dobbin's New Institutionalism: an Example

Institutionalism in general – and neo-institutionalism in particular – thus has no intention to put together a coherent theoretical paradigm. Institutionalists are not puzzle-solvers in the Kuhnian (1996) sense of the term. In terms of academic identity they are close to Benson's (1977a) "challengers" – always questioning the paradigm and looking for partial instead of comprehensive solutions. Their credo is as simple as "institutions matter". Frank Dobbin is one of the figures on the forefront of neo-institutionalist thought in contemporary sociology. Dobbin's works illustrate this lack of coherence, which is one of the strongest features of new institutional analyses.

In "The Social Construction of the Great Depression" Dobbin (1993) draws parallels between the experiences of three different countries during the 1930s. Dobbin's main point is that the substance of the responses to deep economic crises depends on a country's culture. Accordingly, these responses on the part of the state take the form of macro and mezzo policies. Whereas the macroeconomic response in Britain, France, and the United States was very similar (e.g. public spending), the industrial policies adopted by these countries were fundamentally different. It is thus the specific context of each of the three countries that influenced the type of industrial policies during the crisis.

Here Dobbin's (1993) dialogue is with three groups of approaches towards industrial policy – interest group (power), institutional, and realist (classical economics) approaches. Power approaches, Dobbin stresses, fail to assess policy changes that are not the result of political conflict. He acknowledges the accuracy of interest group analysis when applied to fields that are more sensitive to power (e.g. labor relations and social insurance in the U.S. during the Depression). Industrial policy, on the other hand, is not viewed as affected by power struggles, but rather as resulting from a shared cultural understanding among different groups. Interest groups thus have no influence on national policy styles.

The other counterpart of the virtual dialogue in the article – the institutional approaches – is critiqued for not attributing a significant role to culture in industrial policy developments. Accordingly, institutionalists assert that a state can choose its policies within the limitations of its institutional capacities. However, adds Dobbin (1993), culture predetermines which potential solutions should be considered before institutionally-bound choices occur. In addition, the focus of these approaches on continuity decreases their empirical value when analyzing crises when radically different solutions (rather than traditional ones) are sought.

The cultural approach is then applied to the experiences of France, Britain, and the United States during the Great Depression. The thorough economic crisis, Dobbin (1993) contends, challenged both the industrial cultures and the respective policy paradigms that led to that crisis. In an attempt to reverse the negative economic events, states adopted policy paradigms that were the opposite of each state's orthodoxy. France,

for instance embraced laissez-faire, Britain switched to monopolies, and the United States implemented state-led cartelization. Before the results of these new policies became visible, the three states reverted to their initial industrial paradigms.

In *Forging Industrial Policy*, Dobbin further develops the culture argument by emphasizing the importance of political culture in shaping industrial policy. It is political culture, Dobbin claims, that influences both the perceptions of existing problems and the solutions among which choices are made (Dobbin, 1994). However, that causal process is different in countries that have their own unique political traditions and thus different collective understandings of social order and instrumental rationality. In order to account for such differences, Dobbin argues, one thus needs to look at the processes that produced variance in modern economies and the policies that maintain them.

The political culture approach applied by Dobbin (1994) thus leads him to the conclusion that the industrial policies pursued in the railroad sector in France, Britain, and the United States reflected the political-economic models followed by these countries. These models, though, were very different, even if within the broader framework of capitalism. Accordingly, instead of universal economic laws, it was the pre-existing institutional arrangements that affected the 19th-century economic institutions in the three countries.

The socially constructed economic models in France, Britain, and the United States, thus located the center of authority in the economic life in three different entities. The U.S. model focused on the markets and emphasized local autonomy where the state was just an arbiter. The French model, on the other hand, located responsibility for order

in the country in the central authority and thus made the technocrats the center of authority over economic life. Finally, the British model protected the sovereignty of bourgeois elite and thus promoted the entrepreneurial firms as the central authority in British economic life (Dobbin, 1994).

A first line of discussion of the book is with theories of industrial policy that are based on rational choice and efficiency arguments. The critique here is directed primarily towards claims of universality of economic laws. Rather than complying with rules of macro and micro selection, where the most rational and efficient policy is adopted, each country is perceived to have its own selection mechanism based on its rationalized meaning systems and its institutional practices. Economic determinism is thus countered by Dobbin's (1994) arguments that economic growth can be induced by a variety of policies and that economic principles are country-specific and originate from a country's institutional evolution.

A second line of discussion involves political-realist conceptions that attribute policies to power struggles among interest groups pursuing their objective material interests. Dobbin's (1994) response is that to a large extent interest groups originate from a country's institutional arrangements, rather than from universal principles that are exogenous to the state. Furthermore, Dobbin argues, not only the interests of different groups within a country may involve intangible, non-economic benefits, but also even the economic interests are shaped by the cultural assessments of rationality and self-interest of each country. Universal predictability of interest-group policy preferences is thus viewed as oversimplification of the history of industrial policy.

Without questioning Dobbin's argument against economic and political realists, one could still observe a tendency towards universalizing in *Forging Industrial Policy*. Rather than advocating universal laws, Dobbin seems to promote an omnipresence of certain processes and institutional structures. As in "The Social Construction of the Great Depression" the three cases – France, Britain and the United States – seem to follow the same paths (here in developing their railroad sectors). The pre-existing institutional arrangements in all three countries are modeled around a single power center (different in each case). The railroad policies are thus attributed to political cultures that reproduce that model.

In "The Market that Antitrust Built" Dobbin and Dowd (2000) argue that the changes in the railroad industry in the United States (and Massachusetts in particular) in the 19th and early 20th centuries were the result of inter-industry power exercised by financiers over the railroad companies. The model adopted by the U.S. railroads is thus not viewed as resulting from prescriptions in the antitrust law of 1897, but rather as a structural power-led choice between two available models. Antitrust policy is thus treated as an exogenous factor that altered the pre-existing logic of mergers.

The path described by the authors thus follows three stages/periods. The first period is characterized by a prevalent business model – cooperation. During that stage, the dominant logic of acquisition in the railroad sector was advising purchase of competitors only if these competitors were doing poorly. Cartelization and price setting were thus the main paradigm that was supported both by the industry and by the states.

This strategy was viewed as the alternative to price wars and competition with prices close to marginal costs and shrinking profits (Dobbin and Dowd, 2000).

In an attempt to offset potential contradictions with Dobbin's previous cultural approaches, the article seems to consider the adoption of antitrust laws as the result of cultural arrangements. This legislation is viewed as an attack on baronial power, rather than as efficiency-motivated. However, this view does not alter the realist approach adopted towards the developments in the railroad sector. There, the actors (railroad companies and banks) are presented as having objective interests and exercising power to promote these interests.

Rather than contributing to a coherent framework for industrial policy analysis, it appears that the three works challenge existing paradigms. The critique of interest group realists presented in "The Social Construction of the Great Depression" and *Forging Industrial Policy*, for instance, seems inconsistent with the argument promoted in "The Market that Antitrust Built". Both of the earlier works critique realism and the second one even launches a critique against interest group realism⁶. The third one, though, embraces that approach. Moreover, Dobbin and Dowd's power realism reverses the culture vs. realism theme that is prevalent in both earlier works of Dobbin.

Furthermore, the challenge towards interest group and institutionalist approaches in the first work are not sustained in the second one. Instead, they are substituted with critiques of realist assumptions within interest group theorists and institutionalists. In the second work, the critique is thus collapsed to a single area critiqued in the first work –

⁶ The works are referred to as first, second and third in the order of their appearance: "The Social Construction of the Great Depression", *Forging Industrial Policy*, "The Market that Antitrust Built".

realism. The difference, though, is in the unpacking of realism as having ramifications on interest group theories, institutionalism, and neo-classical economics. In the second work, Dobbin thus agrees (at least implicitly) with the power and institutionalist arguments that he rejects in the first one.

Hence, even the best and brightest neo-institutionalists do not always agree with themselves. Such a critical stance and malleability of one's own epistemologies delivers contextually guided research rather than research guided by a set of theoretical beliefs. The social science produced by institutionalists like Dobbin always remains in tune with the needs of the research context. The main message is that there is no single factor that guides policy-making. In order to deliver an accurate analysis of industrial policy one thus needs to remain sensitive to the social, cultural, and political forces in place during any given historical period that is studied.

2.4 Industrial Policy

Whereas transitology and neo-institutionalism provide the broader theoretical homes for my research, the substantive area I am focusing on is industrial policy. Policy-making is a crucial component of any transition as it reflects the reforms adopted by a particular country. Furthermore, industrial policy is an important tool in the carrying out of structural reforms in a country's economy. As later chapters demonstrate, the policy paradigms that dominated the past thirty years in Bulgarian history follow specific logics that often change from one paradigm to another. The following discussion of two approaches to industrial policy – European and American – lays the theoretical foundation for a better understanding of the policy paradigms from the research chapters.

In a world before the European Economic Community emerged as the European Union, defining the notion of industrial policy would have been a relatively easy task to do. Looking at Graham's definition one could then agree that industrial policy is a stated national comprehensive endeavor to shape the development of certain sectors of the economy. The entity responsible is the state and the purpose of the endeavor is to manage the industrial mix of a country (Graham, 1992:3). This definition could be relaxed using Bingham's (1998:4-6) concern that some countries could use their discretion to interpret a policy and thus make it implied rather than stated.

A thorough revision of definition was, however, imposed by the appearance of a supra-national entity with ambitions that go beyond the national scopes of its members. The European Union made the idea of only national-based industrial policy obsolete (Bianchi and Labory, 2006). A useful tool to cope with such inconvenience is Bianchi's contribution that industrial policy is in fact a variety of public actions that promote and monitor economic structural transformation (Bianchi, 1998:1-2). More recently, Bianchi and Labory (2006) have claimed that industrial policies are a "variety of public actions aimed at guiding and controlling the structural transformation process of an economy" (Bianchi and Labory, 2006:3).

Juggling with these definitions is not only a self-contained intellectual pleasure; it also shows that the issues of industrial policy are becoming increasingly important since some countries are undergoing processes of redefinition of national identity within larger unions (e.g. EU). At the same time, other countries (e.g. U.S.) remain within a traditional paradigm of addressing local and international competition. That paradigm surely

becomes richer as it continuously includes a variety of approaches towards industrial policy, but it still assumes an effort on the part of a nation-state that aims at changing arrangements within the nation state. Hence, later chapters refer to the industrial policies belonging to the old paradigm as sectoral or traditional industrial policy, while I reserve the term “industrial policy” (used synonymously with “economic policy”) for the new paradigm.

In addition to extending the meaning of industrial policy, the new approach should also reconcile the claims of success and failure and merge them into a category of effect. Within one context, an industrial policy could be considered a success, but be labeled as a failure in another context. Instead of labeling an industrial policy as (un)successful, one could thus investigate whether it did make difference or not – whether the structure of a sector or the economy was changed by it or not. However, establishing a causal relationship might be difficult, granted that a policy could use a variety of instruments and have multiple effects.

Industrial policies could aim at improving efficiency or enforce/introduce broader societal values (e.g. equity, stability, and education). There are two broad groups of views towards industrial policy’s desired outcomes. A first one (labeled here as the traditional approaches⁷) generally considers industrial policy to be targeted towards increasing efficiency and fostering competitiveness (Chang and Nolan, 1995; Solingen, 1996). The second one (labeled here as the new approaches) acknowledges the need for industrial

⁷ The distinction between traditional and new approaches is an analytical one. Clearly, the economic results of an industrial policy could hardly be separated from its social outcomes. That inherently makes economic approaches a part of broader social approaches. In addition, this classification does not refer to an author’s discipline of belonging.

policy results in fostering efficiency *and* equity, stability or welfare. The traditional approaches thus view industrial policy as the government providing support to the economy, whereas the enhanced views consider industrial policy as a tool for delivering broader public goods.

Traditional approaches regard industrial policy as an economic mechanism (sometimes successful and sometimes not) used by the state to foster a country's competitiveness. In most cases, this framework derives its logic from the logic of rational choice. Actors (individual and institutional) are thus assumed to be seeking universally rational solutions for the problems they face. Furthermore, policies are claimed to affect economic and market equilibria. Hence, the effects policies have hence tend to be evaluated in terms of bringing a market closer to or further from equilibrium. In this view, a successful industrial policy, for instance, would be achieving a solution closer to equilibrium than the actual market can attain.

The focus of traditional approaches restricts their analysis both in terms of scope and purpose assigned to industrial policy. Defining efficiency and competitiveness as the ends blinds the economic approaches to cases where efficiency is only the means. For the group of economic approaches, the ultimate goal of industrial policy is to provide sectors in a country's economy with more efficient productive capacities. By increasing efficiency, industrial policy thus provides firms with a competitive advantage over other countries' firms. Eventually, industrial policy is considered to restructure an economic sector in a way that makes it more competitive internationally. However, within this approach one would not pay attention to industrial policies that attempt restructuring

directed at such outcomes as reducing unemployment or improving economic and political stability.

Similar in logic, but different in level of analysis, some authors (Branscomb, 1993; Graham, 1992) within the traditional approaches tend to emphasize the holistic purpose of industrial policy. In that view, the ultimate goal of industrial policy is to mobilize a country's resources and gain a competitive advantage over other countries. One way the latter could be achieved is through financing technological research and innovation in the public and/or the private sector. Industrial policy is hence justified because it allows for planning on the part of the government that exceeds individual firm/industry capacities by both scope (national) and perspective (long-term).

The new approaches, on the other hand, advance a role of industrial policy that transcends purely economic effects and involves welfare and other social effects (Bianchi, 1998; Brabant, 1993; Chang and Nolan, 1995; Cowling, 1999; Dobbin, 1994; Evans, 1995; Fligstein, 2001; Hollingsworth, Schmitter, and Streeck, 1994). These approaches emphasize the importance of outcomes that go beyond economic benefits. Accordingly, outcomes of industrial policies may range from solving thorough crises (Chang and Nolan, 1995; Dobbin, 1994) to regional development (Bianchi, 1998) or unemployment (Brabant, 1993). The new approaches therefore advance a more complex framework of analysis of industrial policy than the one offered by traditional approaches.

Distinguishing traditional and new approaches to industrial policy, however, is not an attempt to dichotomize. This section discusses in more detail the relationship between traditional and enhanced approaches by examining the continuity between them

in three briefly reviewed works. Bulgarian economic policy-making is an example of the applicability of both the traditional and the new approaches to industrial policy. Policy-making before and during the 1980s was more oriented towards specific sectors of the economy. Within that EU, however, cross-sectoral initiatives have been combined with sectoral ones.

Hollingsworth, Schmitter, and Streeck (1994) advance a compelling argument about what they call “governance regimes”. Accordingly, governance refers to the ensemble of institutional arrangements that set the rules and control transactions within an economic system. Two common elements to all capitalisms, the authors claim, are the free markets and privately owned means of production. However, the social and political institutions surrounding these elements are different in each country. The stress is thus on the embeddedness of economic activity in the social-political environment, rather than on the universality of markets.

Examining industrial policies thus allows the researcher to analyze the dynamics of governance regimes and different types of capitalism. As the case studies in Hollingsworth et al. (1994) demonstrate, comparing the nature and performance of industrial policies in different countries provides insights into the strategies of dealing with structural crises (e.g. O’Brien’s and Strath’s case studies in the volume), but could also be used to trace patterns and generate typologies (e.g. Sako’s case study in the volume). At the same time, one can be sensitive to varying industrial policies and particular solutions being equally competitive, rather than claiming that there is only one path of development.

What brings Hollingsworth et al. (1994) closer to the new approaches than other authors is the claim that local or regional socio-institutional contexts can affect governance. Local and regional could of course be thought of as geopolitical categories, but might as well be extended to more micro contexts. The claim for local sensitivity can thus be seen as parallel to (a) Bianchi's (1998) idea that industrial policy is represented by both micro and macro actions taking place in socially and historically constructed markets, or (b) Cowling's (1999) advocacy for focusing industrial policy on local selection processes.

Another area where Hollingsworth et al. (1994) connect to the EU enhanced approaches is their argument that networking is an important element of the mechanisms of governance. Critiquing the economic views that the mechanisms of governance include only markets, corporate hierarchies, and the state, the authors advance the point that associations and informal networks are also a part of these mechanisms. Cowling (1999), on the other hand, advocates the adoption of industrial policies that would enable multinational webs of small firms, rather than targeting single sectors or industries.

Yet a third parallel between Hollingsworth et al. (1994) and the new approaches can be drawn by referring to the authors' assertion that institutions do not always need to be efficient. Industrial policies, originating and targeting institutions would thus not always tend to be efficient. Rather, the purpose, role, or function of an industrial policy could be to promote equity and stability. Bianchi (1998) even considers the three goals as not being mutually exclusive and contemplates the option of industrial policies that promote efficiency while (or through) establishing equity and stability.

It might be useful to recapitulate the characteristics of the new approaches towards industrial policy. The new approaches move away from the emphasis on the nation state and consider supranational institutions as the starting point for industrial policy. However, the role of these institutions is, in Evans's (1995) terms, considered more as "midwife", rather than as "custodian". Industrial policy is thus viewed as facilitating the transition from national to supranational economic policies that are based on micro-selection. The emphasis of industrial policy is hence expected to move from sectors to communities.

Quite the opposite, the traditional approaches view industrial policy as a prerogative of nation states targeting particular economic sectors. The focus is more on the past. Yet, within the American model authors seem to be more willing to acknowledge irrationality than in the case of the enhanced approaches. The importance of culture and interaction is more visible in the traditional approaches, while the new ones often seem to rely on a complex rational choice framework. Dobbin's *Forging Industrial Policy* (1994) discussed earlier demonstrates that difference and allows an elaboration of the elements of the American theoretical model.

A step towards proposing an analytical framework that addresses the complexities indicated by different authors is to synthesize the processes that are considered as relevant to industrial policy formation and implementation. The initial distinction can be based on Evans's (1995) dimension of embeddedness and autonomy. These two broad categories encompass processes that focus on the insulation of the state in designing industrial policy or the effects of accompanying social processes on industrial policy. I

discuss the tension between autonomy and embeddedness in international institutions with regard to economic policies in later chapters.

The processes of autonomy are viewed as originating from the institutional structure of a state. In addition, the processes of autonomy also include the administrative capacity of the state. Alternatively, the processes of embeddedness indicate the effects of social and other factors on the formulation of industrial policy by the state. The two, as in the case of the traditional and enhanced views, are not viewed as a dichotomy, but rather as different ends of a continuum. The processes of autonomy thus include the institutional structure and capacity of the government (Bianchi, 1998; Chang and Nolan, 1995; Solingen, 1996). The government as an autonomous entity is hence bound by its structure and capacity in its formulation of industrial policies. Furthermore, the processes of autonomy also include the ability of political agents to influence the formulation of industrial policies through the political process.

The processes of embeddedness, on the other hand, focus on the influence of cultural, technological, and networking factors on the formulation of industrial policy (Branscomb, 1993; Cowling, 1999; Dobbin, 1994; Evans, 1995; Fligstein, 2001). In this context, the policy-making body (national or international) is limited in its decisions and implementation by factors that are located outside of the industrial policy framework (at least in the view of the traditional approaches). Such processes of embeddedness are later observed during elites' resistance to reforms in Bulgaria in the late 1980s.

Evans (1995) emphasizes that autonomy and embeddedness coexist in practical policy-making. As Hall (1995) argues, policy-making is an exercise of meta-power,

where those who draft the policy desire to “shape the behavior of distant actors” (Hall, 1995:408). Hence, the involvement of a number of actors along the process of policy-inception, adoption, implementation, and evaluation, creates a mix of autonomy and embeddedness, where the initial intentions are perpetually redefined and end up producing results that might deviate from the original goals of a policy (Hall and McGinty, 1997). An example of that is Decree 56 (discussed later), adopted in the late 1980s as a way to introduce market mechanism during late socialism (Elster et al., 1998:44), but that remained one of the main legal documents regulating private economic activity until the late 1990s.

Bulgarian experiences illuminate the combination of autonomy and embeddedness mechanisms. For example, indirectly agreeing with the observations of Elster et al. (1998:193-194), I demonstrate that during the 1990s Bulgarian industrial policies were indeed “neglected”. When dealing with the socialist “champions” (see Chapter 7) Bulgarian governments during the 1990s lacked a coherent stance and policy. In theory, the state was the principal of a state-owned company (the government being the state’s representative) and should have had complete autonomy over the fate of the company, including its rapid reorganization and sale. In practice, the political, economic, and social role of large state-owned enterprises created much more complex relationships between the central government and those enterprises.

2.5 Summary and Elaboration

I have argued in this chapter that theories from three different areas need to be combined if one is to achieve a rich and thorough analysis of how policy-making changes

when the socio-political system in a country is replaced. Specifically, I have shown that bringing together the assets of contemporary institutionalism, transitology, and analysis of industrial policy is necessary in the study of how Bulgaria's policy-making changed during late socialism, transition, and EU capitalism. Thanks to this merger, I am able to argue along with Brabant (1998) that "broad-based market-oriented reform cannot be transplanted in a vacuum" (Brabant, 1998:3) as the Washington Consensus proponents and policy figures have claimed.

Merging separate approaches in the area of policy-analysis is not new. Outlining a dialectical approach to policy-analysis, Benson and Martindill (1998) merge Hall's (1995) mesodomain analysis with historical institutionalism in arguing that together these approaches portray policy variations as originating from contradictory totalities. My combination of institutionalism, transitology, and industrial policy analysis is a variation of this dialectical approach. Bringing together the non-deterministic nature of each one of the combined areas, I put forward an analysis that "reveals alternatives and openings in the policy process" (Benson and Martindill, 1998:1).

In the following chapters, I discuss the methods most suitable to this type of approach. The mix of methods I have chosen provides access to a variety of sources (some of them competing) to construct an accurate holistic picture of Bulgarian policy-making under different economic and ideological regimes. I also analyze Bulgarian industrial policies and compare them to the traditional and the new views of industrial policy. Informed by the contrast between traditional and new approaches to industrial policy, I have expected contemporary industrial policies in Bulgaria to be more

horizontal and less sector-oriented due to EU pre-accession and accession. At the same time, I have expected older policies to be more geared towards specific sectors of the economy due to COMECON and Washington Consensus influences during the 1980s and 1990s, respectively.

The tolerance for contradictions and variations within industrial policies in my research is similar to the one displayed by neo-institutionalists. While acknowledging the presence of a specific policy paradigm during a particular period, I allow room for significant variations within the policy paradigms. Hall (1993) defines the concept of policy paradigm as a general framework outlined by policy-makers that specifies the problems that need to be addressed, the goals that need to be achieved, and the instruments that should be used to achieve those goals. Even though it is open to some interpretation, most of this framework is taken for granted by the officials who work within it. Hall likens policy paradigms to Kuhn's (1996) scientific paradigms in that policy paradigms also go through a cycle of normalization, change, and shift.

Thanks to the open-endedness of my approach, I establish that some of the legacies of Bulgaria's late socialism have played a crucial role in the country's transition. For instance, I report that representing the economic reforms from the late 1980s, a document entitled Decree 56 provided the guidelines for Bulgaria's private sector until the late 1990s. When it was adopted, the document allowed "private firms" to be established and introduced market mechanisms in the socialist economy. Decree 56 has been usually perceived as a meek attempt to introduce private activity in the socialist market (Elster et al., 1998:44). The experience with Decree 56 and similar documents

demonstrates an unexpected compatibility between socialist and capitalist policy mechanisms. This goes counter to an established practice of discussing communist legacies. Ekiert and Hanson (2003b:5), for instance, define communist legacies as “*burden from the past*” that obstruct a country’s transition.

3 Research Methods

3.1 Chapter Synopsis

I have established that the best theoretical stance allowing for the analysis of a country's changing economic policies is a mix of ideas from the areas of institutionalism, transitology, and industrial policy analysis. This mix of ideas (and concepts) allows a thorough study of systemic changes involving the collapse of one political, economic, social, and cultural system and the establishment of a new one. However, finding the right theoretical blend needs to be combined with an appropriate methodology – one that allows the analysis to achieve the sought level of comprehensiveness while remaining historically and institutionally grounded. The methodological framework I present in this chapter delivers an institutional analysis that is both relational and processual.

On several different occasions, I have been asked the question: “How can research that focuses on one case be comparative?” In this chapter, I discuss the characteristics of comparative sociological work by reviewing the roots of the distinct subfield under the name of comparative sociology. Later, I investigate the shortcomings of formal (i.e. positivist) comparative and experimental methods. While formal comparison is still a big part of mainstream comparative methods it contains unrealistic assumptions that need to be addressed. Finally, I present the ideas of incorporated comparison and my implementation of those ideas.

3.2 Comparative Methodologies

Comparative methodology has traditions dating back to the origins of the field. Some of the works of Tocqueville, Weber, and Durkheim, are comparative in their

scope⁸. However, comparative sociology did not emerge as a subfield until after the Second World War. Even though this version of comparative social science has been discredited because of its universalizing tendencies, it has legitimized a field of study that has remained vibrant. Not to mention, that certain social sciences (e.g. economics, political science) still use positivist comparisons in their analysis of social, economic, and cultural trends in the world.

Armer and Marsh (1982) attribute the establishment of the subfield to Marsh's own volume titled "Comparative Sociology" (1967). Accordingly, comparative sociology is concerned with "the *systematic, explicit*, comparison of *data* from two or more societies, or at more than one point in time in the history of a single society" (Armer and Marsh, 1982:1). This strict definition of comparative sociology is somewhat contested by Smelser (1976). Smelser writes against the act of drawing a contrast between comparative, statistical, and experimental methods. In his opinion, singling out "systematic comparative illustration" (1976:157) as the only comparative method implies that the other two methods do not involve comparisons. Comparative illustration is simply a back up for situations where statistical analysis is not applicable (e.g. small number of cases) or experimental design is not possible (e.g., conditions cannot be manipulated). In other words, the comparative illustration is never desirable, but is sometimes necessary.

The goal of comparative sociology, as envisaged by Marsh (1967), was to help sociology and its theories become truly universal. The agenda for sociology and anthropology set forth by Marsh involves using comparative works as a device to be used

⁸ For a discussion of the comparisons used by these authors, see (Smelser, 1976)

when sorting theories that are universally applicable, the ones that are partially applicable, and those that are unique, across societies. The mechanism through which this happens, is as follows: comparative studies put forward propositions based on cross-societal analysis; each one of those propositions belongs to a specific societal subsystem – family, polity, stratification, demography, or culture; hence, by reviewing a number of comparative studies a sociologist (like Marsh) is able to code and classify each proposition into a set of issues within a societal subsystem.

For example, from the analysis of comparative studies of marriage and family Marsh (1967:105-111) is able to identify that divorce is a universal social phenomenon even if the specific rules applying to divorce differ across societies. A universal feature of divorce is that it is seen as something negative everywhere around the world.

Generalizations can also be contingent upon specific factors. For instance, close family ties⁹ tend to get broken in more industrialized societies. Yet, other generalizations may require additional research or cannot be confirmed.

The role of comparative sociology is thus to be in the forefront of sociological theorizing. As functionalists attributed a crucial role to theory to select *relevant* empirical data and point out what empirical research *should* be conducted (Parsons, 1938), the so identified role of comparative research neatly fits within the master plan – any comparative research is an excursion into controlling variance (Smelser, 1976). By applying Marsh's mechanism of controlling variance within comparative research, one is thus contributing to the overall purpose of social theory of selecting and organizing social facts into a coherent explanatory framework (Parsons, 1938).

⁹ Ones that require frequent interactions among relatives.

Additionally, a scientifically disciplined comparative sociology – one that maximizes the benefits of formal comparison – should employ either of two strategies. It could compare cases that are very similar or alternatively it could compare cases that are radically different (Smelser, 1976). For instance, if in one society the presence of factors A, B, and C leads to the outcome “Bang!” and in another the combination of factors A, D, and E leads to outcome “Bang!”, one can safely assume that without factor A there would be no “Bang!”. Alternatively, if the presence of factors A, B, and C leads to outcome “Bang!” in one society while the presence of factors A, B, and D leads to outcome “Bing!”, one can safely assume that factors A and B are not relevant to the variation in observed outcome.

Critiqued by second-wave and post-colonial historical scholars this vision for comparative sociology prioritizes Eurocentric experiences and perspectives (Adams, Clemens, and Orloff, 2005). Consequently, positivist (comparative) methods assume space and time independence of social concepts and favor quantitative and experimental research (Steinmetz, 2005). One of the main assumptions is that the master-researcher *knows* what is important and what is not, whose experience is relevant and whose is not. Nonetheless, a number contemporary comparative works have embraced the idea of rigorous variable-based comparison that *controls* variance through formal restrictions and by using quantitative tools. In doing so, variable-based comparisons seek generalizability and ignore complexity (Ragin, 1987:53-68).

However, even one of the leading figures in cross-cultural comparative studies Geert Hofstede acknowledges the tendency of some works to embrace “primitive

ethnocentrism” (Hofstede, 2001:19). For instance, Hofstede (2001) is critical of research that imposes pre-constructed cultural frameworks – like Maslow’s (1943) hierarchy of needs – from the U.S. onto other countries. Hofstede is also critical of the use of ethnocentric instruments (e.g. questionnaires composed and validated by U.S. scholars in the U.S.) in foreign countries. Notwithstanding the critique, Hofstede admits that this comparative social science is bound to be tied to Western universalist tendencies: “This, I’m afraid, we have to live with” (Hofstede, 2001:13).

To be fair, there is a smaller degree of ethnocentrism in research that groups cases analytically *after* completing the surveys and applying statistical tools (e.g. factor or cluster analysis). Still, one could wonder if there is such a thing as a “healthy” ethnocentrism. The value of diversity gets lost in neat, two-dimensional displays of the world’s cultures like the Inglehart-Welzel Cultural Map of the World currently featured on the web site of the World Values Survey (<http://www.worldvaluessurvey.org>). Although I am happy for Inglehart (2008) that the cultural changes in the world he predicted in 1971 have occurred, I am having a hard time establishing the principal differences between the ethnocentrism of the Cultural Map of the World and the Hierarchy of Needs. In the next section, I discuss how variable-based comparison puts form over content and favors an illusion of scientific rigor over the analytical richness of a historically oriented narrative.

3.3 Formal Comparative and Experimental Methods

In his exposé on the benefits of comparative methodologies, Ragin (1987) stresses that holistic case comparisons are able to establish relationships of causality and present

holistic analyses. This is what makes them better suited to address complex macro-historical phenomena compared to variable-based comparisons. These benefits are combined with the applicability of comparative methods in cases of small N. Although the word “sample” is only applicable in statistical contexts, the small number of cases surveyed by comparativists would present any statistician with significant difficulties and would render the statistically based conclusions virtually unreliable.

Others point out that comparative methods should try to overcome the issue of looking at a handful (or even less) cases. The limited number of cases obstructs the use of variable-based approaches since it obstructs statistical checks on the reasons and results of variation. Furthermore, constructing probabilistic arguments and testing probabilistic theories with a small number of cases poses problems of generalizability. On the other hand, applying deterministic perspectives (when performing statistical analysis of a limited number of cases) could lead to inadequate conclusions (Liebersson, 1991).

For Ragin (1987), the issue of small N is more of an opportunity than a problem. Comparative researchers are empowered by the potential to establish complex causal relationships – a privilege that is not available to variable-based approaches. This application is necessary when a researcher is interested in analyzing macro-social and macro-historical phenomena. True, Ragin points out, an analysis that seeks complexity is not likely to be very generalizable, but generalizability and complexity are two opposing ends that can only be reconciled so much.

According to Skocpol (1979:36-40), the goal of historical comparison is to establish causal relationships between a phenomenon and events/processes preceding it.

The practice of comparative historical methods combines John Stuart Mill's methods of similarity and difference. A study using these methods can thus look into: (a) cases that share a phenomenon and a set of factors (potentially leading to the phenomenon) or (b) cases that are very similar, but do not all display the phenomenon and respective factors. Accordingly, successful applications of these strategies bridge theory and history and can lead to better theories and applications of those theories.

Nonetheless, the method of similarity and difference is frequently employed by comparative students of transitions. Linz and Stepan (1996) find the method useful because it allows identifying shared issues in the post-communist space that were the result of Soviet Union domination. Accordingly, during that domination, the USSR was trying to impose the same political, economic, and ideological patterns on all countries from the bloc. Using this method also assists social researchers to integrate post-communist experiences in the larger framework of comparative politics. The purpose of such comparative work is to eventually produce a common theory of transitions that acknowledges the diversity existing within the post-communist space, but at the same time applies to all those experiences.

Hence, the question is really not which strategy or methodology is *always* better and which one is not. Statistical methodologies have their place and application when large numbers of cases need to be analyzed and when the sheer vastness of bi-variate relationships¹⁰ would make any comparative analysis extremely expensive and time-

¹⁰ For example a comparative bi-variate analysis in a set of 1,000 (a relatively common statistical sample for large populations) would mean to study almost 500,000 pairs of variables (499,500 to be specific).

consuming. On the other hand, comparative methodologies are better equipped in situations when statistical analysis is problematic and when complexity is sought after.

3.4 Incorporated Comparison

The debate over the applicability of formal comparative and statistical methods vs. substance-based comparison reflects a wider divide in sociology – the long lasting divorce between theory and research. Maintaining a schizoid¹¹ split between the conceptual and the empirical has been the task of the General Linear Reality (GLR) and its assumptions (Abbott, 2001:37-63). For a while, GLR has been preaching about uniformity of the objects of study, unidirectional causality, univocal meanings, and independence of the dependent variables. As a result, sociology has generated either theories that do not reflect social reality or ones that reject empiricism because of the inherently anti-social philosophy of GLR (Abbott, 2001:59).

In a way, through GLR and normative positivism, sociology has pretended to be what it is not – a natural science of the individuals in society, one that is still young and undeveloped, but that is based on the same epistemological and logical premises (Bernstein, 1978). It is therefore imperative that an “adequate, comprehensive political and social theory must be at once empirical, interpretative, and critical” (Bernstein, 1978:xiv).

The shift of focus towards contextuality though signals an increase of the complexity of analysis and applicability of that analysis to social life. Abbott (2001) has

¹¹ My use of the word schizoid is inspired by Horkheimer and Adorno’s discussion of the paradox of Enlightenment. The ideology that takes at its heart to dispel myths and put the individual as its idol is problematic when applied to a field that has as a task to study the social (see: Adorno and Horkheimer, 1979).

suggested that useful alternatives to GLR are advanced by demographic models of reality (entities move, appear or disappear, divide or merge), sequential models of reality (entities are ordered and follow one another, stories create meaning, significant changes might start from minor events), and network models of reality (synchronic contingencies). All alternatives stress the importance of time and historicity (in one form or another).

Considering time is an important step towards reflexivity, i.e. bridging theory and method. Once time is introduced into sociological analysis, it can be discussed as a construct in itself. Bluedorn (2002) for instance distinguishes between “fungible” times and “epochal” times. The former indicate ideas of time as absolute, objective and existing outside of events, while the latter involve thinking of time as contextual, contained in events, and relative.

Another step towards complexity is to acknowledge the multiplicity of relationships between subject and object. The analysis of the knowing subject is what allows sociology to pursue kinds of knowledge that do not follow formalizing or functionalizing patterns already adopted by other fields (Mannheim, 1985). Even if the goal of objectivity is retained, it is a different kind of objectivity: “A new type of objectivity in the social sciences is attainable not through the exclusion of evaluations but through the critical awareness and control of them” (Mannheim, 1985:5).

The main comparative strategies widely used by social scientists tend to favor formal comparisons over substantive ones. However, a number of authors have been working on critiquing the paradigm and offering alternatives. As McMichael (1990)

points out, cross-national comparisons and natural experiments tend to stress the methodological importance of scientific rigor, which establishes unnatural boundaries between the units of analysis. Accordingly, method could take precedence over substance in two general ways: (a) by imposing formal assumptions on historical data – natural experiments, or (b) by conceptualizing a macro cross-national level of comparison. Method-induced boundaries thus are established around a theoretical model where history fits in (natural experiments) or nation-state (cross-national comparison).

If one prefers to focus on uniqueness, the one nation-state boundary would remain. The case is presumed to be self-contained and self-sufficient, and yet containing important information about other nation-states. Historical analysis of such cases attempts to be as detailed as possible in order to emphasize the uniqueness of the case or its generalizability. To move beyond the limitations of a formalizing comparative logic, McMichael (1990) offers the method of incorporated comparison.

The method refuses to close the boundaries around a theory or a case and delivers comparativeness in two ways. First, it traces multiple instances of a process and the process's evolution across time. Second, it traces variation across space within a "world-historical conjuncture" (McMichael, 1990:389). Incorporated comparison is thus inherently processual and bypasses the formal construction of independent units used by the major comparative strategies. This method directly tackles the issues of policy-making that is not constrained to the borders of a nation state. As Cohen and Zysman (1989) point out, national cases of industrial policy are not independent as ideas and practices often get borrowed and adopted from other nation's experiences.

The method, McMichael points out, is not new, and has been used by Polanyi (2001), Moore (1993), and Walton (1984). I would add Elias (1999), with an emphasis on his concept of figurations, and Bourdieu (1979) to that list. However, as my comprehensive transitology literature review will show, incorporated comparison does not seem to be a preferred method to analyze post-communist transitions. Most analyses use variable-oriented or case-oriented – in Ragin’s (1987) sense of the terms – comparative logic. Hence, a study using incorporated comparison would be new in the field and would set a precedent that will offer social scientists from the region a valuable alternative to traditional comparative approaches.

The benefits of a research paradigm that cuts across different fields and is not shy about going beyond the principles of formal comparison are outlined by Kornai (2008:190-192). Although Kornai does not use the term “incorporated comparison”, his concept of “system paradigm” – particularly useful when analyzing post-communist transitions – is very similar. The research focus of the system paradigm is oriented towards the relationships between a system and its institutions. The comparison used by the system paradigm is in essence holistic case comparison. It is qualitative and is not restricted to one field, one sector, or one policy. Instead, the system paradigm uses actual economic, political, or cultural processes to study institutional change in a historical context.

In a similar vein, Haydu (1998) draws the attention of historical sociologists to two common pitfalls in historically-oriented research. On the one hand, path dependency models tend to emphasize causal relationships between one historical period and another

by extracting and tracing variables with little focus on context. On the other hand, rich historical narratives tend to stress the uniqueness of one period compared to another and pay little attention to continuities and regularities across periods. According to the author, both ideal typical strategies are guilty of trying to maximize one advantage (causality or contextuality) rather than trying to find an optimal mix between the two.

In order to overcome the limitations of traditional strategies in historical analysis, Haydu advocates a research strategy that connects sequences of events across periods. Accordingly, such a strategy (a) reconstructs the mechanisms that exercise causal influence over time, (b) captures the role (agentic and structural) of the past across important turning points, and (c) uses social actors as “the historical pivots that link ‘cases’ of problem solving” (Haydu, 1998: 367). Hence, a scholar using this integrative framework would be able to detect historical causation that links past and present developments.

3.4.1 Polanyi’s Incorporated Comparison: An Example

For instance, in *The Great Transformation* Polanyi (2001) investigates the relationships between the capitalist system, the modern state, and their institutions. Notwithstanding his studies and descriptions of specific institutions within a modern state (e.g. laws, market, or politics), Polanyi’s ultimate focus and argument cannot be contained within a single field (economics, political science, or law). He uses early economic scholarship to show that in its beginning modern economic thinking did not contain predictions for the glorious inevitability and perfection of the capitalist market-based system.

Polanyi then uses an extended example (not a self-contained, self-sufficient case) of the Speenhamland laws to show how the political machine played a critical role in the establishment of the market system. Finally, Polanyi refers to anthropological studies demonstrating that the exchange of objects among “primitive” people – typically used to prove that economic exchange has always been a part of human activity – can serve a socializing rather than an economic purpose.

Hence, to present an account of complex historical events and processes Polanyi engages in a methodologically complex exercise. The concepts he discusses comply with this complexity and the thoroughness of his research deserves admiration. For instance, in his description of the international context of the industrial revolution, Polanyi discusses the system of balance of power as one of the main institutions of the 19th century (Polanyi, 2001:3).

However, the concept of balance of power, he later stresses, is more complex than that – it signifies a policy, a historical law, a principle and system (Polanyi, 2001:259-264). The reader is thus left with the impression that Polanyi has carefully considered all aspects of the concept, each one of which has evolved along its own historical path. In the end, those paths converge and play a role in constructing the modern idea of balance of power.

Similarly, in the case of the institution of the self-regulating market, Polanyi’s reader is presented with a multifaceted analysis of the concept. Polanyi’s understanding of the idea of self-regulating market can be divided in two parts: market and self-regulation. In Polanyi’s opinion, the most important concept within the idea of market is

price since it marks the point of agreement (or disagreement) between production and distribution. A market alone does not require equitable exchange or consistent exchange prices. However, combined with self-regulation, the market requires the institutional separation of society into two distinct spheres – economic and political – without any interaction between them (Polanyi, 2001:68-76).

Through his eclectic methods, Polanyi deconstructs ideas that he thought were taken for granted in the discussions of the emergence of capitalism as seen by liberal economists. By openly challenging and ignoring the latter's methods and ideas, he is able to present an alternative account of the emergence of capitalism and in effect challenge positivist thinking of any kind. His own words present a clear argument in favor of his method as an accurate and valuable alternative to the development paradigm:

Economic liberalism labored under the delusion that its practices and methods were the natural outgrowth of a general law of progress. To make them fit a pattern, the principles underlying a self-regulating market were projected backwards into the whole history of human civilization. As a result, the true nature and origins of trade, markets, and money, of town life and national states were distorted almost beyond recognition.
(Polanyi, 2001:274)

From the vantage points of individual fields, Polanyi's study is not methodologically sound since it compares units that are not comparable. Moreover, within each specialized field his research might be deemed as incomplete and insufficient. From the point of view of incorporated comparison, Polanyi's study shows that the economic and the political institutions of modern capitalism do not act in separate

realms. Furthermore, it becomes clear that the market system is not God-given, self-created, or self-regulating.

Hence, one should not be surprised by the wide variety of capitalisms present in today's world: some with universal healthcare coverage and others without, and some with extensive mechanisms to make up for market failures and others without. Neither should one be surprised by the futility of the efforts of political scientists to prove that there is a correlation between democracy and economic development (i.e. market-based capitalism).

3.5 Comparative Methods as a Way to Achieve Incorporated Comparison

3.5.1 Elaboration

A comparison of cases equates cases with entities. Much like variables (although a lot more complex), cases have well-established boundaries. Comparing countries, for example, one is facilitated by political boundaries (borders), but additional boundaries (e.g. historical and cultural) are assumed to be fixed as the political ones. Each case is thus internally self-sufficient and independent of other cases.

There is a sound logic behind this assumption. If two cases are independent in the described way, the researcher can extract processes and conclusions that perform better at a validity test than a single case analysis. Consider the following hypothetical situations. A number of countries undergo a severe political crisis that makes them change their political, economic, and overall social systems. A social scientist is interested in unraveling the factors that lead to such a crisis, but lacks the resources (intellectual and

financial) to do extensive analysis of twenty or thirty individual countries. Instead, the researcher puts together a team that studies six of those countries.

The findings of the team are as follows. Factor 1 is discernible in all cases. Factors 2, 3, and 4, appear in one or two cases. Factor 4 is present in three cases, while Factor 5 is present in the other three countries. The assumption of independent cases thus enables the research team to conclude that Factor 1 is the most important one, but it needs to act together with Factor 4 *or* Factor 5. Now, replace the numbered Factors with “low productivity”, “political repressions”, “poor quality of produced goods”, “financial instability”, or other plausible causes, and you will have an idea of how a typical case comparison would approach the collapse of communism/socialism from the end of the 20th century.

There is a great deal of knowledge to be had using this method, but accepting the assumption of independence could be a little difficult. One difficulty might be coming from the fact that it all happened around the same time. For example, the USSR pulling out of Afghanistan and thus showing its military and financial impotence; the unrests around Central and Eastern Europe; and the weakening of the political elites all were happening at the same time and were on the news for everyone to watch, listen, or read¹². For instance, the Romanian “revolution” was broadcast on Bulgarian TV as it was happening. Each case was thus influenced by others.

The epistemology I have embraced acknowledges that the boundaries around cases are fuzzy at best. I will later demonstrate that countries – i.e. potential “cases” –

¹² Even if one excludes the local media from consideration for reasons of censorship, foreign radio stations (like Free Europe, Voice of America and similar media) were spreading the news to everyone who had radio sets with AM reception.

within international institutions do not have clearly defined boundaries. For example, the internal specialization within the socialist Council for Mutual Economic Assistance (COMECON) had a lot to do with nation governments' decisions of which sectors to develop within each national economy. Currently, the European Union has policies that effectively restrict member states' economic production. An infamous example of the latter is the EU ban on beer stronger than 5.6% alcohol unless brewing of such beer is a part of a country's history and cultural tradition.

3.5.2 Methods

My project is an incorporated comparative study (McMichael, 1990) of Bulgarian industrial policy during periods of different transnational organizations. I investigate the role transnational organizations have played in shaping Bulgaria's industrial policy by looking for answers to the same set of questions in each consecutive period and across different periods. Therefore, my analysis is also sequential in Haydu's (1998) sense of the term. The periods I am studying are not confined to the start and end years I am using. The latter serve as markers and provide analytical clarity. However, in terms of content the periods have emerged out of historical data, specific policies, and changes in the political-economic environment (Johnson, 2008; Walton, 1992) in the country.

I consider three main research questions (see Figure 3-1) and three historical periods: (1) Late Socialism (the last 10 years of socialist/communist past), (2) Transition (the 10 years that followed), and (3) EU Capitalism (the present marked by pre-accession and accession of Bulgaria into the European Union). The labels and boundaries of the periods are analytically- and historically-justified encompassing roughly ten years each:

1980-1989 (Late Socialism), 1990-1999 (Transition), and 2000-2009 (EU Capitalism). In addition to representing the last ten years of the system, Late Socialism is characterized by significant attempts at economic reforms. Transition starts with the political and economic reforms of 1990-1991 and is somewhat arbitrarily set to end following the peak in privatization efforts around 1999. Finally, EU Capitalism is set to start with the first serious indications of Bulgaria's (then) future accession to the EU – the annual progress reports by the European Commission.

Figure 3-1: Research Questions

Q1: How does the specific institutional and political history of Bulgaria shape its industrial policies in the three periods?

Q2: Are there continuities between the three periods indicating that past institutional and political structures produce similar industrial policies across the three periods?

Q3: How do international institutional pressures affect the policies?

Acknowledging that the contextual (historical and cultural) uniqueness of each case of transition from socialism to capitalism is unique is only one step. To complete the whole journey, one should be mindful of both contextual specificities of a case and contextual regularities across a bloc that used to encompass a number of nation-states. Addressing my first research question (see Figure 3-1) provides that depth. My research demonstrates that a number of industrial and economic policies pursued in the country were in direct connection with COMECON agreements and deals that involved other countries from the bloc.

Although European Union policies are far from being communist, there are similarities between the period before 1990 and the one after 2000. Along with that, the

lack of strategic policy-making during the 1990s – a period dominated by international financial institutions – is striking. Hence, the issues that my second and third research questions (see Figure 3-1) bring up are closely tied with the ones brought up in the first research question. These continuities and discontinuities can also indicate certain institutional logics that transcend ideological regimes like capitalism and communism.

3.5.3 Data

To answer the questions, I investigate the following levels: official representations, popular discourse, key informants, and popular and academic literature – Table 3-1 details the specific sources within each category. I consider three historical periods: (1) late socialism (the last 10 years of socialist/communist past), (2) transition (the 10 years that followed), and (3) EU capitalism (the present marked by pre-accession and accession of Bulgaria into the European Union). The labels may change as I advance, but the periods will most likely stay the same encompassing roughly 10 years each: Period 1 (1980-1989), Period 2 (1990-2000), and Period 3 (2000-2007).

To pursue a comparative logic that focuses on processes rather than formal case comparison, I start by tracing the changes in the budgetary structure in Bulgaria for about three decades (see Table 3-1). I use materials that allow a first level of observation and analysis. Through archival work and access to official documents, I analyze and compare state budgets for the whole period (1980-present). I am interested in the structure of these budgets since they represent the intended government spending and are the top macro level where policy decisions and shifts can be observed. The categories in all these

budgets are not uniform and need to be coded, but they should provide a useful comparison of the structure of government spending over the past almost thirty years.

Table 3-1: Data Sources			
Information Sought	Source	Approach	Period
<i>Changes in patterns of public spending and strategic public investment</i>	Newspaper Archives	Analysis of articles about policies and strategic public investment supplementing State Budgets	1990-2009
	State/Government Budgets	Document analysis and content analysis with coding of public spending categories and strategic public investment	1978-2009
	Official Statistics	Graphical and statistical analysis of relevant data from Bulgarian government institutions and international institutions	1980-2009
<i>Changes in strategic direction within the bloc</i>	Literature on COMECON	Analysis of international strategic direction in economic development	1972-1980
<i>Changes in strategic direction within the country</i>	National Five-year Plans	Analysis of national strategic direction in economic development	1980-1990
	National Seven-year Plans		2000-2009
<i>Economic policy practices and intentions</i>	Published Memoires	Analysis of national and international strategic direction in economic development	1970-1990
	Published Journalistic Analyses	Analysis of national and international strategic direction in economic development	1990-2009
	Interviews	Semi-structured conversations with: - (a) former entry-level and top-level planners (employees of Central Planning Committee); - (b) representatives in Bulgaria from international institutions (IMF, World Bank)	1970-2009
	Lectures and Other Online Sources	Document analysis of audio, video, or other online content from the web sites of international institutions	1990-2009

Additional documents I analyzed include five-year plans (for the first period), key legal documents (for the whole period), and specialized newspaper publications (for the

second and third periods). These documents bring more specifics, examples, and essence to support or contradict the observations based on the analysis of budgets.

For a more complete picture, I conducted several interviews. I interviewed two persons who worked at the former Central Planning Committee (one during the 1970s and one during the 1980s). Their accounts are useful in terms of educating me personally and revealing some of the processes behind the master process of central planning. I interviewed two higher-level economists (one Deputy Director of the Central Planning Committee) and one academic who, at different points in his life, served as a representative at the United Nations Industrial Development Organization, and advisor to Prime Ministers. I also met with the current Communications Office of the World Bank's Office in Sofia and an IMF official. All but one interviewee consented to being quoted with their names.

I used newspaper publications to monitor and analyze the involvement of supranational (economic) institutions in policy-making in Bulgaria. *Capital Weekly*, a business and economics oriented newspaper I worked at in the late 1990s, has set up an online archive that covers all of its issues starting from the early 1990s. Being familiar with the limitations and potential inobjectivities of the newspaper, I tapped into that resource and used it to supplement both my budgetary analysis and assessment of specific policies since the early 1990s. I used another local specialized newspaper – *Pari Daily*.

4 Policy-Making during Late Socialism: The 1980s

4.1 Chapter Synopsis

Chapters 4, 5, and 6 address my main research questions. They offer an incorporated account of the changes in Bulgaria's industrial policies during the periods of late socialism, transition and EU capitalism, and the role international institutions played in the process. Those changes are tied to the specific political and institutional context of each period. The chapters put forward a sequential argument regarding the similarities and differences between policies across different periods by highlighting the continuities and discontinuities in Bulgaria's economic policies.

My argument is based on a review and comparison of industrial policy paradigms in place during the 1980s, 1990s, and 2000s. Based on the review of the relevant literature, I expected to see significant variations ranging from socialist through US-style capitalist to EU-style capitalist policies. While socialist industrial policy during the 1980s should be expected to use non-economic rationales to justify developing one sector of the economy over another, industrial policy during transition (1990s) should be expected to prioritize efficiency and competitiveness over everything else. In this hypothetical context, Bulgaria's industrial policy during the 2000s should be closest to the model employed in the European Union attempting to strike a balance between issues of effectiveness and larger social issues (e.g. employment and environment).

The similarities between policy-making during late socialism and the one during EU capitalism bring up another important point. In a number of ways, it seems that the period of transition from socialism to EU capitalism economy has actually been delayed

(rather than facilitated) by the Washington Consensus (i.e. non-EU capitalist) policies. This shows that some types of capitalism are more compatible with different social orders (e.g. socialism) than with other types of capitalism. At the same time, I am not advancing an argument about ill intent or blame. I demonstrate that the Washington Consensus policies, championed by the International Monetary Fund and the World Bank (Kolodko, 2000), welcomed by Bulgarians and their governments, have created institutional disruption and chaos, which they are now trying to overcome during EU pre-accession and accession.

The next three chapters develop my argument by discussing each historical period in detail and establishing links between periods. This chapter (Chapter 4) focuses on policy-making during the last 10 years of socialism. Chapter 5 concentrates on the period of transition from socialist to capitalist economy while Chapter 6 presents policy-making during the 2000s, i.e. the period of pre-accession and accession of Bulgaria to the European Union. All research chapters build a framework of sequential incorporated comparison by comparing policies within and across the three periods. Each chapter looks at Bulgaria's economic policy-making within the respective period and the influence international institutions have exercised on Bulgarian industrial policies.

This chapter presents an overview of central planning – the market replacement mechanism during the 1980s. I put forward two central arguments. Firstly, I argue that due to national and international factors Bulgaria initiated a de facto transition to market economy in the mid-1980s. Market-oriented reforms from that period mark a departure from previous policies and map a path towards market socialism that was abruptly

terminated in 1989-1990. I use conversations with one high-ranking planner, one prominent economist, and two regular planners along with documentary analysis of the five-year plans in place during the 1980s. I also account for the influences of the Council for Mutual Economic Assistance (COMECON) on national industrial policies.

Secondly, I argue that even though the policy changes started during the 1980s were all but abandoned, there are clear instances of meta-power as parts of those changes remained in place during the 1990s and served as a basis for the private sector in Bulgaria. Hence, I contend that the common notion of transition as reforms started from scratch is not accurate. The point that capitalism and communism are two mutually exclusive approaches motivated the *tabula rasa* approach to reforms is thus a part of an ideological argument rather than an empirically verified one.

4.2 *National Central Planning*

In socialist administrative planned economies, central planning is a key component of how things are done. Founded in 1945 (Bulgarian Academy of Sciences, 1987:60-61) the State Planning Committee (a.k.a. State Planning Commission) was the single most important planning institution in Bulgarian Economy. Dr. Doulev, former Deputy Director of the Planning Committee during the late 1980s and early 1990s describes the role of the institution:

In the central planned economy the Planning Commission occupied a strategic key position and without the permission of the Planning Commission, which tied together all balances, the budget of the country could not be put together. We were making the forecast and were giving the basis. Everything was interpreted and tied together: proportions, material balances, capital investment, financial

balances of the country. Such a universal complex public body was the Planning Commission – it was the engine of Bulgarian economy, the heart of Bulgarian Economy. That is why the chairmen of the Planning Commission were either members of Politburo [highest communist party body] or deputies of the Prime Minister.
(Doulev, 2008)

Socialist central planning represents an alternative to market coordination. Mateev (1977) points out that the most salient difference between the two mechanisms is that market coordination heavily relies on competitive forces. In that context, private property and competition lead to power struggles between corporations to create and preserve markets for their products. The strongest corporation usually wins. Competition-driven markets thus do not stimulate production geared towards satisfying consumer needs. On the contrary, public property and socialist central planning eliminate the competitive component from the equation. Companies do not need to compete to survive – they need to make products that meet consumer needs.

True, admits Mateev, companies and “collectives” (1977:26) have specific interests, which could sometimes be competing. However, without market competition companies cannot fight each other directly. Instead, the central planner plays the role of the ultimate arbiter who decides which product or service is more needed. Conflicts between economic agents are thus solved by a powerful and presumably objective entity acting on behalf of the consumers. Hence, competition is redefined and turned into productive driving force. Companies can pursue their interests without trying to destroy each other and take over the market.

Lane (1996:47) confirms that the model described by Mateev was normative within the bloc. Within the normative model market forces are replaced with other forces – today one could call them power struggles. The system tries to minimize economic inequality, but it opens venues for other types of social differentiation. For instance, Lane (1982) argues that the countries from the former socialist bloc had a variety of social differentiation mechanisms based on income, education, prestige of one's occupation, gender and ethnicity. One of my own interviewees even calls the prestigious (in Bulgaria) strata of workers “Her Majesty the Working Class” (Angelov, 2008a). Therefore, under state socialism power struggles are very much alive even if they are organized differently than in market capitalism.

In a way, central planning is the ultimate solution to a variation of Olson's (1965) free-rider “problem” of collective action under capitalism. In Olson's view, collective goals are hard to achieve because each individual assumes that someone else will put in the effort. Transferred from public to private goods, Olson's theory could be outlined in the following way. Self-interested economic agents (e.g. profit-maximizing companies) pursue their narrow interests rather than collective ones (e.g. market equilibrium). As a result, the disconnect between private and collective interests leads to market solutions that are not optimal. Although not exactly following Olson's train of thought, this argument is consistent with Friedman's (Friedman and Friedman, 2002:119-136) discussion of how free markets can create monopolies that end up abusing those free markets. Hence, by removing private short-term interests, central planning encourages the pursuit of long-term collective interests.

In central planning, the rationale behind the combination of public ownership of the means of production and a unified economic plan is to overcome the difficulties and shortcomings of market capitalism. However, under socialism not all planning is centralized – planning is a mix of centralization and decentralization (Mateev, 1977). The relations between large producers and consumers (e.g. between coal producers and steel manufacturers a.k.a. coal consumers) are mediated through central planning. On the other hand, the relations between a local manufacturer of consumer products and local stores are largely decentralized. In the latter case, the role of central planning is to aggregate and estimate, not be actively involved in the exchange.

The mechanism of central planning thus reflects a two-way process – it involves day-to-day needs and requests from below and strategic decision-making from “above”. The central planning committee is the middle ground where the two streams meet (Angelov, 2008a). Functionally specialized planners are responsible for the collection of information and request from economic and other units while department heads convey the strategic direction that the government is taking at any given point.

For example, a low-level planner (position “specialist”) who is in charge of a subsector (e.g. Enterprise Group “Electron”) collects information from the factories that compose the subsector (e.g. battery factory in Nikopol, radio factories in Sandanski and Gotse Delchev and electronics factories). The collected information includes production levels (past, current and projected), financials, needed capital investments and other microeconomic information. The planner then registers the information and submits the request for consideration. Current information is used to inform future plans along with

the requests from all Enterprise Groups and individual enterprises (Angelov, 2008a; Petrov, 2008).

Some authors stress the inability of central planning to be an effective replacement of market mechanisms. Consistent with that critique is the argument that short-term consumer needs were sacrificed at the expense of long-term development needs (Fehér, Heller, and Márkus, 1983). In the case of Bulgaria, Hristov (2007) argues that because of over-commitment to development needs (national and international) the Bulgarian government had to be bailed out several times before 1989 mainly by the USSR. In fact, the author claims that socialist Bulgaria was considering joining the IMF in 1987 as a potential alternative source of financing.

4.3 The Influence of COMECON and International Division of Labor

The mechanisms guiding the economy during central planning are thus significantly different from decentralized market coordination. Although the typical discussion of central planning vs. market coordination has revolved around the inefficiency of the former and the efficiency of the later, one could argue that inefficiencies can occur in either of these, especially if the normative model is left unchallenged. The two models differ in their ideological premises and goals, but within the economy, they both provide a way to coordinate the complex interactions between producers and consumers. However, central planning provides an effective way for a government to promote its long-term strategy for a country's economy.

In addition to central planning concerns, national policy-making is influenced by the country's international responsibilities within the Council for Mutual Economic

Assistance (COMECON). Created in January 1949 with initial members being the USSR, Bulgaria, Hungary, Poland, Czechoslovakia, and Romania COMECON's general purpose was to assist the USSR and the socialist countries in their economic cooperation. Later other socialist countries joined the organization: Albania (1949), German Democratic Republic (1950), Mongolia (1962), Cuba (1972), and Vietnam (1978). Yugoslavia became an associate member in 1964 while other countries (e.g. Finland, Iraq, Mexico) had cooperation agreements with the organization (Bokarev, 2007).

The Council's integrative functions were not spelled out until the mid-1950s – coordination of the national socio-economic plans, specialization of production and industrial cooperation. Various sessions of COMECON during the 1950s were called to address issues like international trade agreements, economic and scientific cooperation and improvement of the living standard. Although numerous, the activities from the first years of the organization were ad-hoc and the charter of the organization was not adopted until 1959. COMECON's activities from those first years were focused on specific sectors: oil (1958), energy (1959), mining and ore extraction (1961-1965) and other sectors (Bokarev, 2007).

Parallel to the economic concerns addressed by COMECON are political ones. Bokarev (2007) reports that starting from the mid-1950s communist and workers' parties actively engaged in the Council's activities. Hence, along with designing the principles of international division of labor (i.e. one country makes product "A" while another makes product "B") COMECON was expected to help less industrialized countries to industrialize faster and make scientific and technological discoveries available to all

members. Dr. Ivan Angelov, an economist, former representative of Bulgaria in UNIDO and former advisor to several Prime Ministers, describes COMECON:

Bulgaria is a member of COMECON from the very beginning. At that time, this was a useful endeavor, where an institutional mechanism was created for the cooperation and coordination between the member countries. Its main goal was to speed up and enhance the international division of labor. Specifically, it was created to avoid the overlapping of the production of the same good in all or in several countries in smaller quantities thus preventing the so-called economies of scale. This was the right thing to do. The second goal was through this division of labor to put into practice a redistribution of resources. Meaning that, the more advanced countries were to provide financial and, what is more important, expert technological assistance to the less advanced ones in order to achieve an incremental leveling.

(Angelov, 2008b)

From an economic standpoint socialist cooperation and catching-up strategy is an act of charity on behalf of the Soviet Union as the latter gave away more than it received. Bokarev (2007) reports that between 1949 and 1960 the USSR transferred 12,552 stacks of scientific and technological information to COMECON countries while it received only 6,477. Similarly, the USSR transferred 12,730 stacks of documents to other socialist countries (mainly China) while it received only 873. Political reasons dominate over economic ones as the Soviet Union was effectively subsidizing other socialist countries not only with R&D information, but also with raw materials. Dr. Angelov reflects on the nature of those exchanges:

[In the 1970s] COMECON introduced a system that was beneficial to the [oil] consuming member countries. It was

not that beneficial to the ones – mainly the Soviet Union – producing oil [called] sliding averages. Oil prices were calculated not based on the current price on the world market, but based on an average for the past five years. The earlier average would expire and the newer would be added. The Soviet Union was losing from that, but countries like Bulgaria were profiting, because they were given the opportunity to get prepared for the shock – the shock was actually quite canceled out – of the high prices. (Angelov, 2008b)

While, as previously demonstrated, some argue that the USSR was the losing side in COMECON exchanges, others emphasize the dependency on the Soviet Union that such relationships created. Lavigne (1999), for example, points out that the exchanges within COMECON made the member countries highly dependent on natural resources (raw materials and fuels) coming from the resource-rich USSR. The need for raw materials and fuels, Lavigne argues, went together with the model of rapid industrialization adopted by the COMECON countries. Additionally, the goods produced by those countries using Soviet natural resources were exported to the Soviet market thus creating another dependency on the USSR.

Economic and political motives were not the only ones behind the industrial policies of development under USSR-guided COMECON. Social concerns like employment were also very important. Hence, economic units were invested with complex rationales and functions that went beyond their purely economic dimension. For instance, still one of the larger employers in the country, the steel plant Kremikovtzi was using imports for most of its raw materials by the late 1970s. Mr. Angelov, a former

Central Planning Committee expert, explains the logics behind Kremikovtzi's existence and operations:

Kremikovtzi, as you may know, was using ore from Algeria, because Algeria owed us a lot of money. We could not get back the cash and were importing ore from there via water transports. Ore, not concentrate! People build flotation plants where the ore is located – the rocks stay there and you extract concentrate that you process at metallurgical plants later. We were transporting the rocks to Kremikovtzi. The fuel that was used [for smelting] was special – we do not have the kind of coal from which you can extract coke. We imported that coal from Donbass [Now Ukraine]. So, you bring the rocks from Algeria and the coal from Donbass! [...] It is clear how competitive Kremikovtzi is and how its rolled steel, sheets, and profiles, are golden. Notwithstanding this, it is a big deal as a social accomplishment. Several thousand people work there. They retire at the age of 50. Housing is build for them, communications and so forth.
(Angelov, 2008a)

As pointed out earlier, central planning is an alternative to market arrangements. However, markets can be local, national, and international. This is reflected in the institutional principles of COMECON – an organization that guides international specialization and division of labor on one hand, and acts as a substitute for international markets on the other. In this sense, characteristic of socialist economies is a tendency to use COMECON as an international planning committee of sorts. As COMECON is influenced by both economic and political considerations, one would not be surprised to find out that a number of arrangements within COMECON were reached by bargaining. I

asked Dr. Angelov, “Within COMECON divisions, how were strategic priorities determined?” and he replied:

Bargaining between the countries. Each country is trying to reach a solution that is beneficial to it. Of course, each country had to formally prove that it would be effective if it was entrusted with the production of Product “A”. For example, Bulgaria was manufacturing electric forklifts, internal combustion engine forklifts, and electric hoists, for the whole COMECON. 93-95% of the output was for the member countries. The rest, an insignificant share, was for our market. This was negotiated.
(Angelov, 2008b)

During late socialism, national policy-making is thus influenced by factors residing both within and outside a country. Within the country, strategic direction is provided by the political leadership while everyday requests from economic agents are submitted by those agents. Along with nationally generated priorities, industrial policies and five-year plans are influenced by the international engagements of the country. Strategic direction and everyday requests meet within the Central Planning Committee and are reflected in the five-year strategic plans and yearly detailed plans. While the five-year plans reflect the direction politicians provide, the yearly plans bridge the goals from the five-year plans and the yearly requests from economic agents (Angelov, 2008a). The targets in the five-year plans are approximate, but they do offer a clear summary of the most important policies pursued during a five-year period.

4.4 Policies in the Eighth Five-year Plan (1981-1985)

As demonstrated, a centrally planned economy is strategically guided by decisions made by local top officials and by agreements within the socialist international community. I proceed with a comparison of the two five-year plans in place during the 1980s for the following reasons.

The setup of the Eighth Plan is ideologically grounded in the Communist Party's motto "Everything in the name of the person, everything for the wellbeing of the person" (National Assembly of the People's Republic of Bulgaria, 1981). Priority is given to traditional development categories like growth, productivity and efficiency (see Figure 4-1). Although present, the use of technological advancements is cited in general terms. In the Eighth Plan, "modern" technologies are listed as means to achieving growth and improved productivity, and as a way to reduce heavy, manual, and menial labor. The role of technology is thus to intensify development and to enable more and better production.

Figure 4-1 : List of Priorities in the Eighth Plan

1. Raise real household income, increase inventories, improve services
2. Complete intensification of the economy. Increase productivity using national and international scientific and technological achievements
3. Reduce energy, material, financial, and labor used in production
4. Concentrate capital investment in modernization and restructuring of existing and new production
5. Maximize the multiplication effect
6. Successively apply of economic principles in all sectors
7. Improve economic cooperation and integration with socialist countries and improve the structure of exports
8. Improve geographical concentration and specialization of production in harmony with comprehensive regional development
9. Improve socialist social relations

(National Assembly of the People's Republic of Bulgaria, 1981)

The practical targets of the Eighth Plan are in line with the goal of intensified industrial development. During the 1981-1986 period, the plan states that overall industrial production should go up by 28%. Within that target the Eighth Plan includes more metallurgy production (+30%) and more machine production (+50%). Transportation of goods and materials is set to increase by 15%. The targets can thus hardly be labeled as post-industrial – they all require more resources even if those were to be acquired and used in a more efficient fashion. However, elements of market orientation are clearly visible in the plan. Improved efficiency combined with focused capital investment is intended to strengthen sectors of the economy that are economically viable, either nationally or internationally.

The idea of the “multiplication effect” is also very market-oriented. An ambitious project, the multiplication principle is a combination of SWOT analysis and benchmarking. Dimitrova (Doinov and Dimitrova, 2002) summarizes the approach as follows. In a factory, the final product is analyzed based on the materials and technologies used to make it, its markets, and an international competitor’s product. The analysis could indicate that a specific component provided by a supplier needs to be improved or that the process used within the factory needs to be changed. Theoretically, the analysis could indicate that the product needs to be dropped altogether.

If the approach succeeds, a series of analyses would trigger a domino effect eventually resulting in the re-evaluation and optimization of all production. The multiplication principle would help identify both major and minor weaknesses of the economy enabling prompt actions against the minor ones and serious strategies to tackle

the major ones. The following example from Ognian Doinov – a very high 1980s official and economic strategist – illustrates how the multiplication principle works:

For example, we built a very modern factory for electronic components in Botevgrad, but almost all of its production was defective. Our specialists were doing all kinds of analyses to determine why almost 100% the production was defective. For months, we did not know what the cause was. In the end, we had to call an expert from the West even though in factories with this kind of production were not supposed to be shown to Western experts. So, what was the main reason for this enormous issue? The reason was very simple although it came to no-one's mind. The produced chips were supposed to be sorted with gloves because even the slightest humidity from the hands of the worker would destroy them.
(Doinov and Dimitrova, 2002)

4.5 Policies in the Ninth Five-year Plan (1986-1990)

The Ninth Plan introduced in the mid 1980-s registers the successful completion of the previous five-year plan (see Figure 4-2). It then proceeds to outline the main objectives for the second half of the 1980s. These objectives are clearly tied to the strategic guidance provided by the Thirteenth Assembly of the Bulgarian Communist Party (National Assembly of the People's Republic of Bulgaria, 1986). Initially the objectives are general and include goals like further development and upgrading of production technologies, environmentally sustainable economic growth, support for the arts, economic cooperation within the socialist bloc and improvement of social and individual conditions.

Figure 4-2: List of Priorities in the Ninth Plan

1. Guarantee qualitatively new economic growth using socialist principles, technological innovations, economic effectiveness, and environmental sustainability
2. Upgrade production technologies using achievements in electronics, micro-electronics, and bio-technology
3. Implement a structural reform in the economy to meet the needs of domestic and foreign markets
4. Speed up the reform in sciences
5. Increase the economic, social, and environmental effectiveness of a harmonious regional development
6. Improve social relations by developing socialist democracy through local self-government
7. Further participation in socialist economic integration within CMEA [COMECON], preserve existing technological and market advantages and acquire new ones
8. Improve the welfare of the people

(National Assembly of the People's Republic of Bulgaria, 1986)

The plan is framed in terms of following “socialist principles”, which is an ideologically loaded phrase indicating economic growth does not always have to be achieved at the expense of the working class. The phrase thus has more of a symbolic meaning rather than any immediate policy-implications. Generally, the plan indicates that principles like full employment, democratic control, and state ownership, are not in jeopardy. Rather, the policies laid out by the plan are fully compatible with the way the country is run. Considered to be common knowledge at the time, the “socialist principles” are very similar to the ones outlined by Marx (see Marx and Kamenka, 1983:203-241) or embraced by contemporary socialist parties (see The Socialist Party of Great Britain, 2009).

Regardless of its general stance, the Ninth Plan reveals key strategic intentions towards further marketization of Bulgaria's economy. Socialist on the surface, a number of the objectives are market-oriented. For example, upgrading production technologies is justified in terms of improving the efficiency of financial and human resources and improving output quality. Furthermore, the programs for restructuring of the main sectors of the economy are tied to the diversification of output and the "conquest" of new market segments. Hence, generally ideologically framed, the Ninth Plan includes strategic directions typical of a capitalist industrial policy and ultimately aim at establishment or improvement of international competitive advantages of a national industry.

The desire for technological advances on the part of the national leadership is particularly visible through the IT objectives of the Ninth Plan (see Figure 4-3). "Article 6 (1) A leading role shall be given to electronics. The production volume shall be increased 2.2-2.4 times and the one of micro-electronics 3 times" (National Assembly of the People's Republic of Bulgaria, 1986). The plan then proceeds to specify the individual IT products (e.g. personal and professional computers, transistors, microprocessors and diodes) that should be made; it then lays the strategic foundation for the digitization of sectors like communications, lasers, and fiber optics. The Ninth Plan further links "traditional" sectors (e.g. chemistry, energy, agriculture, foods and metallurgy) and electronics by outlining how and where IT innovations should be used.

Figure 4-3: The Leading Role of Electronics in the Ninth Plan

Article 7. The development of machine production shall, at an increasing rate, be tied to the upgrading and technological re-arming of the sector's own base and the other sectors by increasing the sector's production by 55-60 per cent. A main task of machine production shall be the comprehensive electronization of manufactured products and the transition from the production of individual machines towards systems of machines. The nomenclature shall be expanded and the techno-economic indicators, reliability and quality of the output, shall be raised. For that purpose:

9. Technologies shall be adopted that use non-mechanical methods of influence – vacuum, plasma, ionic, electron-ray and so forth; as well as systems of machines, equipment, and technological support for their realization and fast implementation;

(National Assembly of the People's Republic of Bulgaria, 1986)

In the plan the adoption and implementation of technological advances is tied to an improved effectiveness of the use of energy and raw materials. It presents the intent to reform the country's economy in a way that it uses less energy and produces less pollution while producing higher quality products. The plan notably uses terms like “renewable resources”, “recycling”, and “environmental friendliness” when outlining the vision for the end of the 1985-1990 period. Based on this vision, the plan adopts specific targets to be reached by 1990 (see Figure 4-4).

Figure 4-4: Efficiency Targets in the Ninth Plan

Article 21 (4) Special attention shall be given to the more complete use of recycled materials and waste in the whole national economy in order to reduce the use of domestic and import raw materials, and improve the preservation of the environment.

(5) In 1990, compared to 1995, for the generation of 100 lv. national income the following economy shall be realized: 17 per cent less energy in generic fuel, 18 per cent in black metals, 19 per cent less cement, and 30 per cent less wood.

(National Assembly of the People's Republic of Bulgaria, 1986)

Along with the implementation of technological innovation across the board and its attention to more effective and efficient production, the Ninth Five-year Plan reveals a lucid acknowledgement of world economic and market trends. On the one hand, it reflects the changing structure of the industrialized economies – the increasing role of the services sector. On the other hand, it solidifies the importance of a globalizing economy both within the COMECON realm and the world (see Figure 4-5). The advent of *de facto* market-oriented socialism (not labeled as such in the plan) is concluded with the introduction of “rentability” (i.e. profit) targets (Article 22.2) and real-world accounting at the micro level.

Figure 4-5: Changing Structure of the Economy in the Ninth Plan

Article 20. The labor potential of the nation shall be improved decisively. For that purpose:

1. the share labor employed by the sectors of material production shall be reduced based on the technological renovation and restructuring of the production, the closing of low-productivity positions, decisive improvement of socialist organization of labor and the creation of conditions for the complete use of working time of workers and employees;
2. the share of labor employed in the services shall be increased, with priority given to the increase in the number of people employed in education, sciences and scientific support, healthcare and housing/construction sectors;

(National Assembly of the People's Republic of Bulgaria, 1986)

The plan describes a system of accounting and redistribution of resources that introduces a serious break with the past. During the 1985-1990 period a system is introduced that uses the annual reports of socialist enterprises as the basis for their future budgets instead of previous plans. Individual Enterprise Groups and enterprises are therefore funded based on their performance rather than on the numbers that were put in the detailed yearly plans. For instance, if a factory reports that its production is not selling well and is reducing its output, it would receive less than planned. It would potentially be pushed to restructure or reduce the number of its employees.

[L]ast year your report, not the plan, is such and such. Based on the report your growth is as follows. Based on the growth, they would plan an additional account for salaries tied to margin from the previous year. From there, they would disburse bonuses for the staff and funds for capital investment.
(Angelov, 2008a)

Introduced in the second half of the 1980s the principles of “the economic approach in management” were outlined in 1983 in a speech by the “First Leader” Todor Zhivkov (Ivanov, 2008:104). The five principles indicating the intention to move the country’s economy in a more market-like direction were as follows: (1) the state owns enterprises that the workers run, (2) the state creates rules for economic activity and economic agents are free to act within those rules, (3) planning is based on actual supply and demand, (4) all but selected large-scale projects are competitively financed by the Central Bank, (5) inefficiencies/losses in some enterprises will no longer be covered by efficiencies/profits in others.

The plan is comprehensive – it covers all aspects of “material” (i.e. economic) and “non-material” (i.e. social, cultural, and administrative) spheres. In this respect, it is a typical socialist five-year plan. This is not surprising in the context of a planned economy. However, the Ninth Plan illustrates the transformations that were initiated in the 1980s. It clearly states intentions to invest in the IT sector and to update technologically all other sectors. It also contains hints of the start of a process of limited liberalization and introduction of market principles in planned economy.

The latter ideas are implemented in several different steps during the second half of the 1980s. According to Tchalakov (2008a), the mid-1980s mark the beginning of relative independence (self-management) of economic enterprises. A number of legal documents are adopted regulating a wide variety of economic activities ranging from business contracts, through price formation, to property rights. Decree 42 of the Council of Ministers for example establishes the principles underlying the “socialist bankruptcy”

– negative rentability (i.e. financial loss), low product quality, negative efficiency (expenses > revenues).

Tchalakov (2008a) emphasizes the importance of Decree 56 of the Council of Ministers from 1988. As Angelov (2008b) – one of its main authors – also points out, Decree 56 remained the main legal document regulating economic relations for most of the 1990s. The goal of Decree 56 was to introduce and solidify market mechanisms in Bulgaria’s economy. It established previously unknown entities such as “private firms”, regulated profits, local and international trade, bankruptcy and liquidation, and laid the foundations for private enterprise and entrepreneurship. One of the authors of Decree 56, Dr. Angelov remembers the controversy the document created:

We were fighting! Until then the [concept of] private firm was unheard of. It was a crime of sorts, a dirty word! And we were working on the project to allow private firms! First, we started with up to 100 employees. We sent the project to Todor Zhivkov’s office. They probably talked to him. They probably told him: “The workgroup on the new mechanism, the new Decree, suggests 100 employees”. Then they tell us: “It is too much. Lower it!” [Prof. Angelov laughs]. We lowered the number to 50. In the end, I think they settled on 20.
(Angelov, 2008b)

4.6 Industrial Policy during the 1980s

The industrial policies conducted during the 1980s were thus split in two parts – one that is more akin to industrial policy proper and one that is a more overarching economic policy. The first part includes prioritizing one sector – information technologies – as the leading sector of Bulgarian economy. The second part includes re-evaluation and restructuring of older sectors using effectiveness assessments and new

technologies. Even more notable, a third part of the policy during the second half of the 1980s is the introduction of market agents and market mechanisms in the economy.

In fact, around 1989 the strategic direction provided by the Party includes endorsements for small and medium entrepreneurship, autonomy and self-management of economic units, and a business climate favoring foreign investments either directly or through joint ventures (Tchalakov, 2008b:157). The foundations for small-scale entrepreneurship were thus laid during late socialism. Some authors (Ivanov, 2008; Kornai, 1992; Tchalakov, 2008b) stress that political and administrative elites were supportive of these reforms only on paper and consider it ironic that the *pro forma* foundations laid by those elites resulted in “authentic” entrepreneurship during the 1990s. However, this irony is lost when one acknowledges that public reform can be accompanied by resistance from public servants (see Czarniawska-Joerges, 1997). In fact, the openings in the system created by Decree 56 were taken advantage of and the document served as a legal base for business activities throughout the 1990s.

Larger-scale enterprises were also affected by the economic policies adopted during late socialism. The creation of Enterprise Groups was another move towards marketizing Bulgaria’s socialist economy and introducing elements of competition within its industries. The vertically integrated industrial complexes sometimes included dozens of enterprises from all over the country with the purpose of developing internally coordinated and governed Enterprise Groups as corporation-like subjects. Enterprise Groups were encouraged to focus on exports and to form partnerships with companies in

the West. As a result, by the 1990s Bulgaria's economy was export-oriented, albeit mostly (80% of exports) COMECON-focused (Tchalakov, 2008b).

5 Policy-Making during Transition: The 1990s

5.1 The Influence of the IMF

The early 1990s marked a reorientation of former socialist countries from economic relations within COMECON to trade relations with the West (Sobell, 1991). The demise of the main international socialist institution (COMECON) in 1991 was accompanied by sudden major ruptures with former economic partners of Bulgaria while new partnerships were slow to establish. In the context of COMECON up to 80% of the country's trade had been with other member countries and up to 60% with the USSR (Bell, 1991). However, the early 1990s showed the other side of Bulgaria's dependency on Soviet natural resources and markets. Starting from 1991 the USSR was demanding hard currency for its natural resources while closing a lot of its markets for products manufactured in Bulgaria (Bell, 1991).

The two most visible international institutions during Bulgaria's transition – the International Monetary Fund (IMF) and the World Bank – did not have the complex political and economic functions of COMECON. Bulgaria joined the IMF in 1990 (Eke and Kutan, 2005; International Monetary Fund, 2009) in search for financial support of the economic reforms in the aftermath of the collapse of COMECON. The conditions in the loan agreements included liberalization of prices, limiting inflation, and promotion of trade. The IMF targets had to be achieved through changes in Bulgarian law and institutions, restructuring of state enterprises, and privatization. (Eke and Kutan, 2005).

The last of four tranches from the first loan was suspended because Bulgaria did not meet the targets. The second loan agreement called for controlling inflation to 2% per

month, limiting output decline to 4% for the year 1992 and restricting bank financing to 3% of GDP. Accepted by the Bulgarian government, the inability to meet the actual targets resulted in the suspension of the second agreement after its fourth tranche. The third loan (signed in 1994) required further macroeconomic stabilization with targets regarding growth, inflation, financial reserves, and budget deficit. The third agreement was also suspended after Bulgaria failed to meet the targets (Eke and Kutan, 2005).

The late 1990s and early 2000s saw another four stand-by agreements with the IMF that paralleled Bulgaria's financial meltdown in 1997, the immediate recovery from the crisis, the stabilization under the principles of the currency board, and economic growth from the late 1990s and early 2000s. Most targets from these agreements were missed, but the last three agreements were considered fairly successful as they were accompanied by improving macroeconomic indicators (Eke and Kutan, 2005). All IMF agreements demonstrate the institution's commitment to and rigidity within a specific policy paradigm that Stiglitz (2002) holds responsible for the institution's inability to be sensitive to any broader social context.

The policy paradigm that guided international institutions regarding post-communist transitions was called the "Washington Consensus" (Stiglitz, 1998; Williamson, 2004b). The phrase represented the shared consent of developed countries about the nature of the reforms to be introduced in the former socialist bloc. The main prescriptions of the Washington Consensus involved liberalization, stabilization, and privatization (Stiglitz, 1998). The promise was that following these steps would reduce the hardships of transition and would lead to successful convergence. Regardless of

challenges (Murrell, 1991; Stiglitz, 1998; 1999; 2002) and imperfections, the paradigm stood strong throughout the 1990s.

The specific policy paradigm guiding IMF initiatives is a mix of monetarist, Keynesian, and neoclassical, perspectives (See Figure 5-1). Within this eclectic framework, the IMF is committed to liberalism and free market as the source for solutions to any issues of development and economic stabilization. The Fund usually advocates growth combined with low inflation, efficiency, price stability, and equilibrium in a country's balance of payments. The IMF is typically seen as focusing on the technical side of a country's economy rather than broader political and/or developmental goals. In this sense, the Fund's actions rest on the assumption that specific policy measures can influence targeted macroeconomic indicators and those measures can be used to manage a national economy (David, 1985).

Figure 5-1: Purposes of the International Monetary Fund

- (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Source: Article I, Articles of Agreement of the International Monetary Fund
(<http://www.imf.org/external/pubs/ft/aa/aa01.htm>)

Hence, the goals behind the IMF loans were ambitious and comprehensive, but the instruments used to pursue those goals were quite limited. As Eke and Kutan (2005) point out, most of the agreements between Bulgaria and the IMF during the 1990s were not honored and Bulgaria failed to meet a significant number of targets set by the IMF. The authors cite a number of potential reasons why – unrealistic targets, frequent changes in government and political turmoil. The Fund had two main tools at its disposal to enforce those agreements. It could stop negotiating a loan agreement or it could delay/withhold transfers (partially or completely).

The goals behind the IMF's involvement were as complex as the ones guiding COMECON – to improve and sustain a complete socio-economic system (capitalism in the IMF case). However, the mechanisms for achieving those goals were not as complex and in most cases were tied to macroeconomic indicators. Former First Deputy Managing Director of the Fund Stanley Fischer (Fischer and Sahay, 2000) points out that the main initial targets pursued by the IMF in former socialist countries were: inflation stabilization, establishment of exchange rate regimes, and stabilization of fiscal balances. Fischer justifies these targets as follows: with output levels dropping more than 40% in former socialist countries (Fischer, 2000), releasing previously government-set consumer prices carried significant inflationary potential and potential for significant macroeconomic shocks due to high budget deficits.

Regardless of its limited controls over local governments, the IMF was the main international institution that took over the task of putting the Washington Consensus ideas into practice. The main areas of reform (some spanning over the course of 10 years) were macro-stabilization, price and market reform, restructuring and privatization, and redefining the role of the state (Fischer and Gelb, 1991). These main areas were broken down and translated into specific indicators/targets monitored by the IMF and rewarded (or punished) by a disbursement of loans. Since Bulgaria failed to meet some of those targets several times, its relationship with the Fund lasted for a total of 17 years and cost the country a total of SDR¹³ 435 million or 20% of interest for the whole period (see Table 5-1).

¹³ Special Drawing Rights – the virtual currency used by the IMF. SDR 435 million currently equals about \$700 million.

Table 5-1: Bulgaria's Transactions with the Fund from 1990 to 2009 (in SDRs)			
Year	Disbursements	Repayments	Charges & Interest Paid
<i>Total</i>	2,180,085,000	2,180,085,000	435,005,914
<i>2007</i>	0	226,633,352	5,792,754
<i>2006</i>	0	235,199,994	16,532,867
<i>2005</i>	0	300,119,994	25,264,341
<i>2004</i>	52,000,000	89,202,075	20,987,090
<i>2003</i>	104,000,000	76,595,832	18,250,074
<i>2002</i>	84,000,000	195,245,834	24,232,579
<i>2001</i>	104,620,000	236,245,834	45,587,826
<i>2000</i>	209,200,000	105,320,834	47,727,410
<i>1999</i>	209,200,000	90,721,257	32,401,104
<i>1998</i>	228,900,000	134,655,415	33,311,510
<i>1997</i>	355,200,000	64,428,951	22,658,907
<i>1996</i>	80,000,000	154,871,877	20,161,238
<i>1995</i>	0	162,290,626	32,904,739
<i>1994</i>	232,465,000	47,953,125	28,086,700
<i>1993</i>	31,000,000	0	26,517,674
<i>1992</i>	200,275,000	60,600,000	25,193,854
<i>1991</i>	289,225,000	0	9,395,247

Source: IMF
http://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=93&endDate=2009%2D06%2D02&finposition_flag=YES

Usually perceived as the bad cop (the World Bank being the good cop), the IMF had the unrewarding task of imposing targets on local governments following its interpretation of the Washington Consensus¹⁴ (Anonymous, 2008). Prior to 1990, the Central Planning Committee would be given the most important indicators (growth in particular) by the political leadership and would be required to build the plan around those. The IMF would be engaged in a somewhat similar, although opposite, process. Through its targets the fund would effectively set salaries, pensions, retirement age other

¹⁴ This interviewee, an IMF expert, consented to being quoted, but preferred to stay anonymous.

benefits, and would ask the local government to build all its policies around those targets (Doulev, 2008).

5.2 *The Influence of the World Bank*

Operating within the same overall policy paradigm as the IMF the involvement of the World Bank has been different. Sharing the broader ideological underpinnings of a transition with the IMF, the World Bank's role is a more passive one. Traditionally, the two institutions were seen as complementary insofar as *one (IMF)* pursues policies regarding short-term demand management while the *other (World Bank)* focuses on long-term structural adjustment and supply management (David, 1985). The World Bank current primary role is to support the Bulgarian government's development plan at the request of that government. The World Bank thus acts as a provider of financial assistance and expert advice (Anonymous, 2008). However, the Bank and the local government do not negotiate like the IMF and governments do. They coordinate things and acknowledge any differences in what the government wants and what the World Bank does (World Bank, 2009).

It is worth noting that the World Bank's approach in the "third world" and in the former socialist countries has been different. In the "Third World", the World Bank employs mostly the instruments that it tried in Bulgaria in the early 1990s – structural adjustment programs. The World Bank works closely with the IMF and the World Trade Organization (WTO) in poverty reduction initiatives that can be seen as means to instilling certain political and ideological orders in the "third world" (Weber, 2004). Although the World Bank's approach in Bulgaria now is different, its initial impulse to

put in place a structural adjustment framework is indicative of the one-policy-fits-all approach originally used in post-communist transitions.

Compared to the IMF the World Bank's focus is broader, covering a wide range of development issues. During the Bank's initial involvement in Bulgaria in the 1990s it identified the following challenges the country was facing: stabilize the economy, set up the conditions for private sector growth, address environmental challenges, reduce poverty, reform agriculture, healthcare, and social services. The first World Bank strategies implemented in Bulgaria involved policy advice, assistance in rescheduling the country's external debt, restructuring of the enterprise and finance sectors (The World Bank, 2002).

Still, the carrot-and-stick method in lending used by the IMF was also used by the World Bank. Lending by the Bank was slowed down or put on hold in the early-mid 1990s due to multiple failures of Bulgarian governments to meet their reform objectives. For instance, during the 1991-1997 only 45% of approved funds were disbursed – \$541 million instead of \$1,200 million. Regardless of the actual methods practiced by the Bank, it remained fairly reflexive noting that a number of targets were difficult to meet because of the specific political and cultural context of Bulgaria's reforms (The World Bank, 2002).

The initial involvement of the Bank reflects the idealistic Washington Consensus attitude with which reforms in the former socialist countries were drafted in the West. The first loans offered by the World Bank to Bulgaria – TAL (Technical Assistance for Economic Reform Project) and SAL (Structural Adjustment Loan) – offer an illustration

of this idealism. Summarized in Table 5-2, TAL and SAL were intended to jump-start and assist early transition. TAL's was a smaller loan with the purpose of preparing the conditions for the administration of the much larger SAL and other transition programs and activities.

Table 5-2: Summary of TAL and SAL Projects of the World Bank in Bulgaria		
	Technical Assistance Loan	Structural Adjustment Loan ¹⁵
Approval Date	June 1991	August 1991
Closing Date	June 1999	September 1994
Project Cost in USD millions	33.5	250
Target Sectors	Public Administration, Law, Justice	Industry and Trade
	Health and Other Social Services	Public Administration, Law, Justice
	Finance	Finance
		Health and Other Social Services
Source: The World Bank Group, Project IDs P008307 and P008308 (http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:115635~pagePK:64020917~piPK:64021009~theSitePK:40941,00.html)		

TAL was intended to finance technical support for the institutions in the center of the reform geared towards the establishment of a thriving private sector. TAL financing was supposed to be triggered when activities of those institutions could not be financed in other ways. The loan's purpose included the support of the establishment of institutional capacity to accompany successful reforms. The core areas targeted by TAL were privatization/restructuring of enterprises, financial, and energy sectors (World Bank, 2000).

¹⁵ Closed in 1994 SAL's Completion Report is not available on the World Bank's web site. Its goal was to stabilize Bulgaria's macroeconomic situation and lay the groundwork for future private-sector-led growth.

Although a small loan, the difficulties the World Bank had with TAL in Bulgaria give a good idea of how problematic the Bank's approach from the early 1990s was. Figure 5-2 includes a short excerpt from the Bank's own assessment. The loan ended up being bigger than intended; it lasted longer than originally intended; and it failed to reach some of its goals while achieving some unintended results. As approved, TAL was supposed to cost \$17 million. It underwent five extensions and revisions each changing the deadlines, activities, objectives, or sums. Although the World Bank considers it a success given the circumstances, it points out lessons it has learned and thus mistakes embedded in TAL's initial design (World Bank, 2000).

Figure 5-2: TAL Overview Excerpt

The Technical Assistance Loan for Economic Reform (TAL) was one of the more complex and dynamic projects the Bank has ever implemented. The TAL could be characterized as a fill-all-the-gaps project, with no less than 26 sub-components under five broad components, and 101 major activities identified at appraisal. In that sense, it was not different from other Bank TA loans designed for countries in transition. Like these loans for transition countries, the TAL's role was to develop implementation capacity in order to increase the effectiveness of the much larger (US\$250 million) Structural Adjustment Loan (SAL). The challenges to TAL's implementation went well beyond its complex design.

(World Bank, 2000)

For example, the World Bank acknowledges that in its initial approach – which it separately states was used in all former socialist countries – it was too broad and too specific at the same time. On the one hand, it tried to establish a scope of support and coverage that was too broad (see Target Sectors in Table 5-2). On the other, the activities and targets it outlined were too specific, which undermined the administration of the TAL. With little knowledge of the local context and no analysis of the local institutional

context, the Bank admits it had a hard time finding fundable activities and thus the numerous redesigns of the TAL (World Bank, 2000).

The TAL experience from the 1990s played a major role in the World Bank's operations in Bulgaria as the Bank has refocused on providing investment loans. In the past ten years, its activity has been focused on providing limited assistance to facilitate the country's pre-accession and accession to the European Union while helping it deal with poverty. The Bank currently has eleven active projects tackling specific social, infrastructural, and environmental issues. Assistance is always provided at the request of the Bulgarian government (Anonymous, 2008).

The World Bank thus pursues its development goals based on the needs of the local government. For instance, in the early 2000s the Bank supported Bulgaria's strategic goal of joining the European Union. The country's long-term goal was supported both politically and by customizing the Bank's millennium goals for the local context. Hence, the desired outcomes of the partnership between Bulgaria and the World Bank were higher per capita national income, lower poverty rate, and reduced unemployment (World Bank, 2002). Figure 5-3 includes an excerpt summarizing the country's progress towards the goal and positive evaluation of the Bank.

Figure 5-3: Country Goals and Country Assistance Strategy (CAS) Outcomes

9. In October 2002 (four months after the CAS was finalized), the European Commission (EC) concluded that Bulgaria had a functioning market economy but separated Bulgaria and Romania from the other ten candidate countries by putting them on a slower, unspecified timetable for accession. This contributed to a greater sense of urgency for the Bulgarian Government to meet EU accession requirements, and served as an incentive for the Government to accelerate its pace of implementing structural reforms and institutional capacity building.

10. The Government's goal of moving Bulgaria closer to EU accession by the time of the national elections in June 2005 was achieved. In May 2003 the EU set a tentative accession date of January 2007 for Bulgaria and Romania. By mid-2004 Bulgaria had provisionally closed negotiations on the 31 chapters of the EU *acquis communautaire*. In April 2005, as the CAS period was drawing to a close, Bulgaria signed the EU Accession Treaty.

(World Bank, 2002)

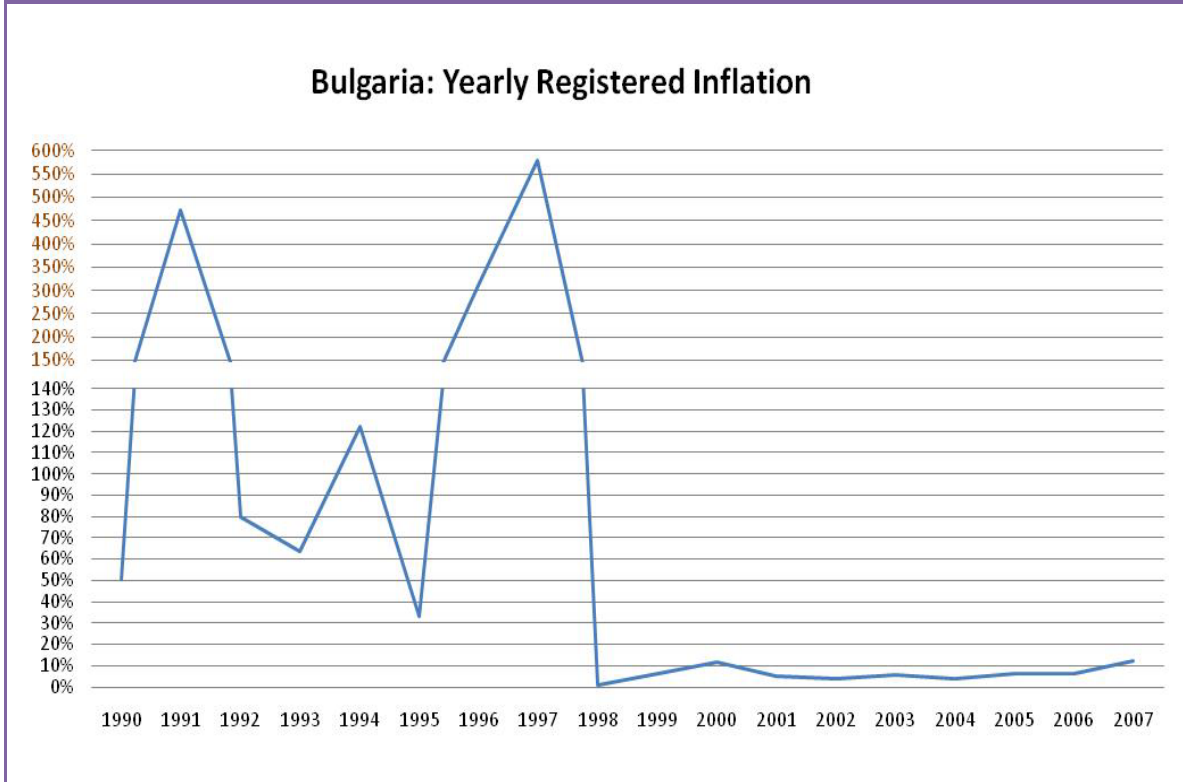
5.3 Industrial Policy during the 1990s

During the 1990s, Bulgaria's economic policies dealt more with financial stabilization, price shocks, inflation, and other macroeconomic issues of the day.

Between 1990 and 2000, with 9 governments (including two provisional) and cumulative inflation of 1,730% (see Figure 5-3) strategic planning could hardly have been a priority.

The main international economic institution active during that period had a colossal task – help fill in the vacuum left from the collapse of COMECON. However, they were unable and unwilling to pursue that task at the scale of COMECON.

Table 5-3: Official Inflation 1990-2007



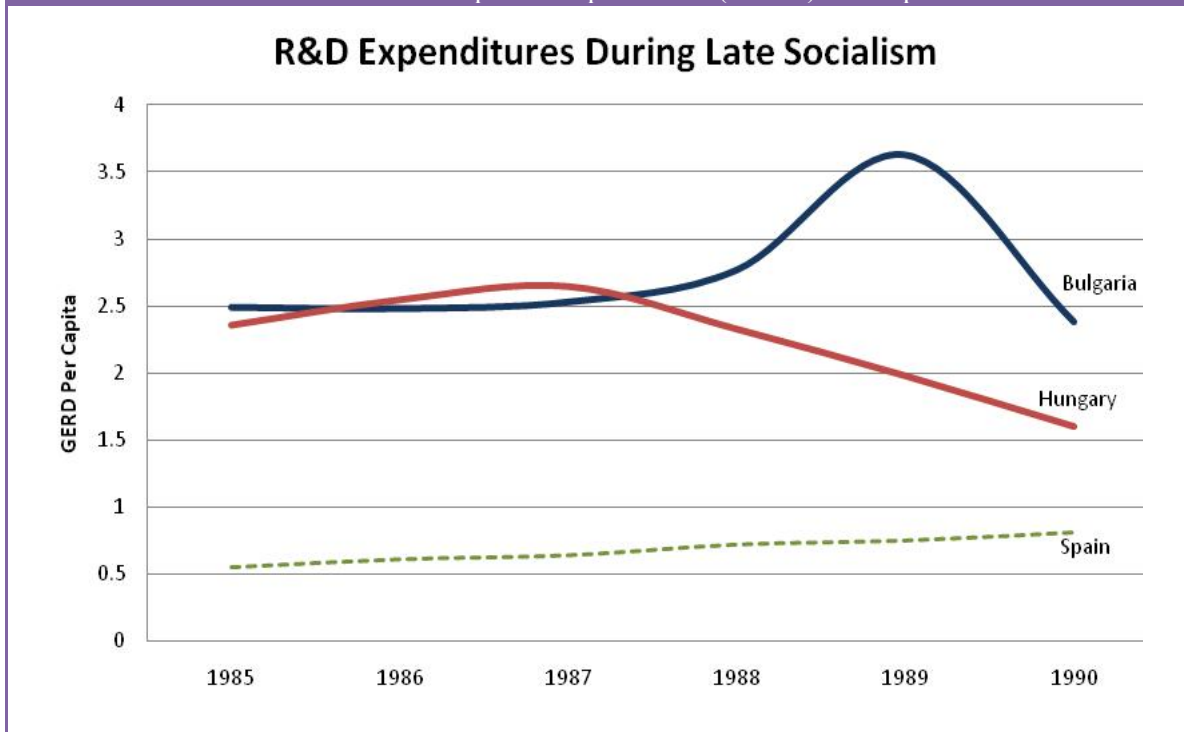
Source: National Statistical Institute (<http://www.nsi.bg/Cpi/Cpi.htm> and Statistical Yearbooks)

Following the dictums of the Washington Consensus, the governments were focusing on liberalization, stabilization, and privatization. A number of the policies adopted during that period were geared towards the establishment of competitive economic environments within the country. For instance, the limited anti-trust actions against the biggest Enterprise Groups started before 1989 were taken to an extreme during the early 1990s. All Groups were “liquidated” according to the legal rhetoric of those days. The resulting small independent companies were thus unable to use previously available economies of scale and scope and saw their market shares abroad shrinking (Tchalakov, 2008b).

Tchalakov (2008b) argues the liquidation policies brought a high level of domestic competition at a high cost. The hundreds of managers who had run the Enterprise Groups were laid off and the new companies lost valuable managerial experience and expertise. Furthermore, the piecemeal privatization of Groups who had been strong exporters limited the expansion potential of their relevant sectors. Moreover, the smaller companies lacked the finances and the capacity to invest and innovate. The resulting fragmentation in physical and intellectual property made it impossible for the state to exercise effective controls over the thousands of companies. The lack of control between the liquidation of Groups and the privatization of the resulting companies opened the door for a number of special interest groups and the already strong “grey” sector.

At the time when private companies could not invest in research and development, the state was cutting its R&D expenses too. Radošević (1996) argues that the decline in innovation and R&D in Central and Eastern Europe started before the collapse of communism, but Bulgaria’s experience does not confirm that. Several indicators used by the author actually show that the country’s investment in research and innovation did not start declining until the 1990s (see Table 5-4). In fact, although Hungary follows the general trend described by Radošević, Bulgaria’s R&D expenditures peaked in 1989 and were over 4 times higher (in relative terms) than those of European Community member Spain. At the very start of the transition in 1990, Bulgaria’s R&D expenses fell 1/3 relative to its GDP.

Table 5-4: Gross Research and Development Expenditures (GERD) Per Capita



Source: OECD as reported by Radošević (1996:188)

Another example of the severely reduced ability of enterprises to innovate observed by Tchalakov is the number of patents registered abroad. Domestically registered patents do not necessarily indicate globally competitive innovation, but the ones registered abroad do. OECD data cited by Knell (1996:21) show that during the 1970s and the 1980s the United States was granting Bulgaria between 20 and 26 patents per year. The highest number – 26 – is in fact from 1990¹⁶. With both public and private R&D support shrinking, the number of registered patents in the U.S. drops to ten (1991), five (1992), and four (1993).

¹⁶ One should keep in mind that the process takes time and therefore there is an inevitable lag. 1990 patents were probably submitted a year or two earlier.

Neither Bretton Woods institution was interested in assisting Bulgarian governments to continue old industrial policies or put in place new ones. IMF's scope was limited to issues of fiscal stability while the World Bank's was limited to technical assistance or financing specific projects at the request of the governments, which were not invested in any strategic planning. The term "planning" had a stigma attached to it for some time after the changes from 1989. Mr. Petrov, a former expert in the Central Planning Committee, remembers those years:

In the beginning, 1990 until 1992, even 1993, they told us "Forget that dirty word "planning". It was taboo. I was ashamed to say that I had worked at the Central Planning Commission. It is recent, from the last 3-4 years, that they started using the term "action plan". Now we even prepare a national employment plan.
(Petrov, 2008)

The sudden rupture with the past and the dismissal of any strategic planning as a valid exercise can be illustrated by the tremendous changes made to national budgets in the early 1990s. Those changes and the key nature of state budgets make those budgets a rich site to study policy changes. As Dimitrov et al. point out: "Budgetary policy is a particularly appropriate area for the analysis of the effects of core executive institutions, given its central importance in the allocation of resources and policy coordination" (Dimitrov, Goetz, and Wollmann, 2006:233).

Before 1990, the yearly budgets were mere summaries of each yearly plan, which was a detailed translation of the five-year plan in place during a particular five-year period. For example, the state budget for 1983 contains the same categories as the one from 1986 – revenues, expenses (productive, social, and administrative), and

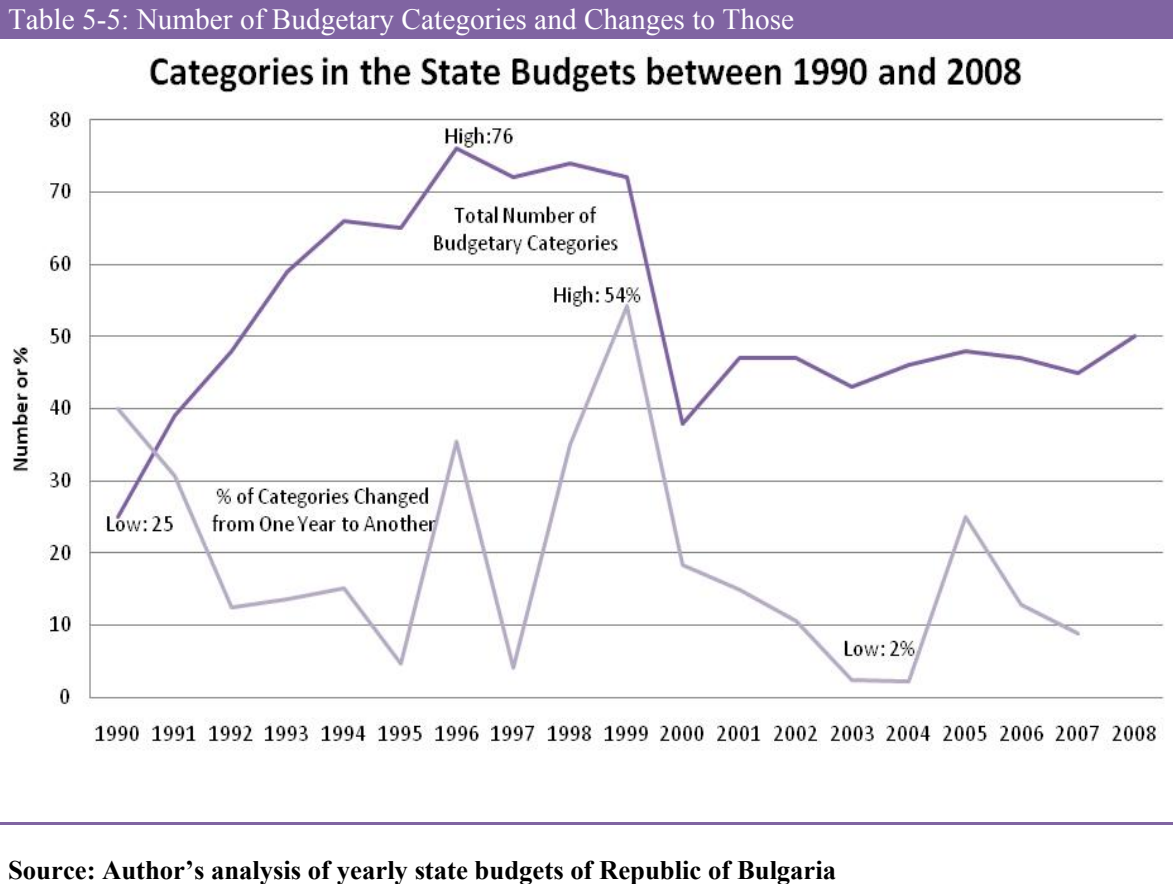
surplus/deficit – with different numbers for the financial resources associated with them. It takes up about two pages.

However, the state budgets from the 1990s partially take up the role of a plan and span over dozens of pages. Those budgets reveal planning that is focused on the short run. The number of categories in them and the rate of change in those categories are heuristics demonstrating how frequent changes in governments and policies influence policy-making. For instance, almost 40% of the categories from the 1990 budget were changed for the 1991 budget (see Table 4) – the golden times of Polish-style “big bang” reforms. Furthermore, the peaks from the late 1990s correspond to the implementation of the currency board – an institution that radically redefined public spending and imposed strict fiscal discipline.

Overall, the fluctuations in both form and content depicted below are indicative of the uneven planning efforts from the 1990s. Table 5-5 shows that the total number of categories in the budgets has fluctuated between 25 and 76 within several years (i.e. between 1990 and 1996). The graph also illustrates the significant changes in how the budgets were structured from one fiscal year to another. For example, the introduction of the currency board in the late 1990s resulted in a restructuring of the yearly budget that slashed more than half of the categories and subcategories. Mr. Petrov reflects on the long-term planning of the past vs. the short-term planning of the 1990s:

The good thing was that once approved [the indicators] applied for the whole five-year period. I think that this is something that is now out of control. There is a universal budgetary classification, but it changes every year. I work with a classification. Once the year is over you start stitching things. How to monitor dependencies if you

comparing with a previous year? Then, it was a sub-indicator A, now it is somewhere else. A universal budgetary classification should be in place at least for the 3-year period that we now have.
(Petrov, 2008)



Further examples are provided in Table 5-6, Table 5-7, and Table 5-8. The chart in Table 5-6 demonstrates how the share of current expenses in all expenses fluctuated between 1990 and 2008. Current expenses include anything that the government needs to run the country during the fiscal year – financial, administrative, infrastructural, educational and investment expenses. It should be noted that the budgets for 1990 and 1991 do not even include a distinct category “Current Expenses” even though the

contents of the category are included in the budgets. The highest portions of current expenses in all expenses are around 90% (1991, 1996 and 2004). The lowest value is 61% of all expenses (2002).

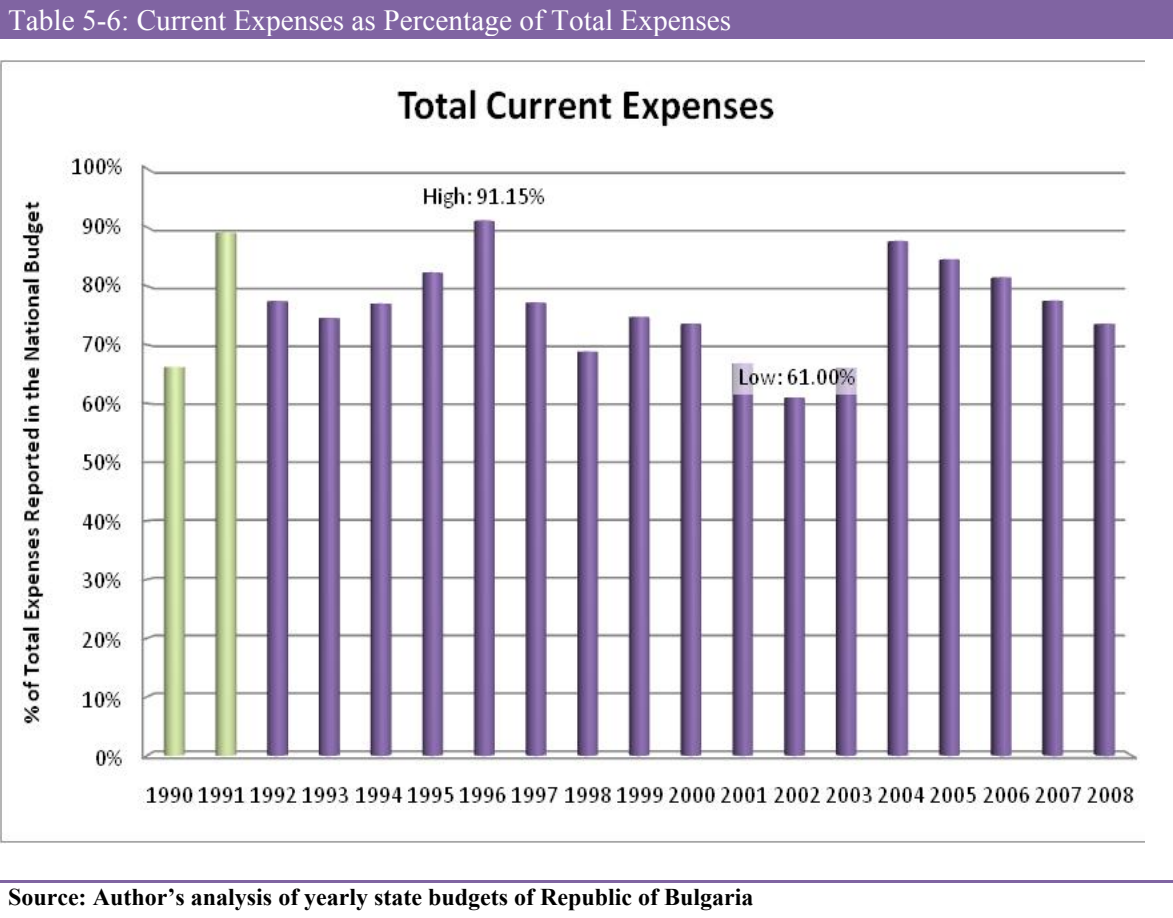
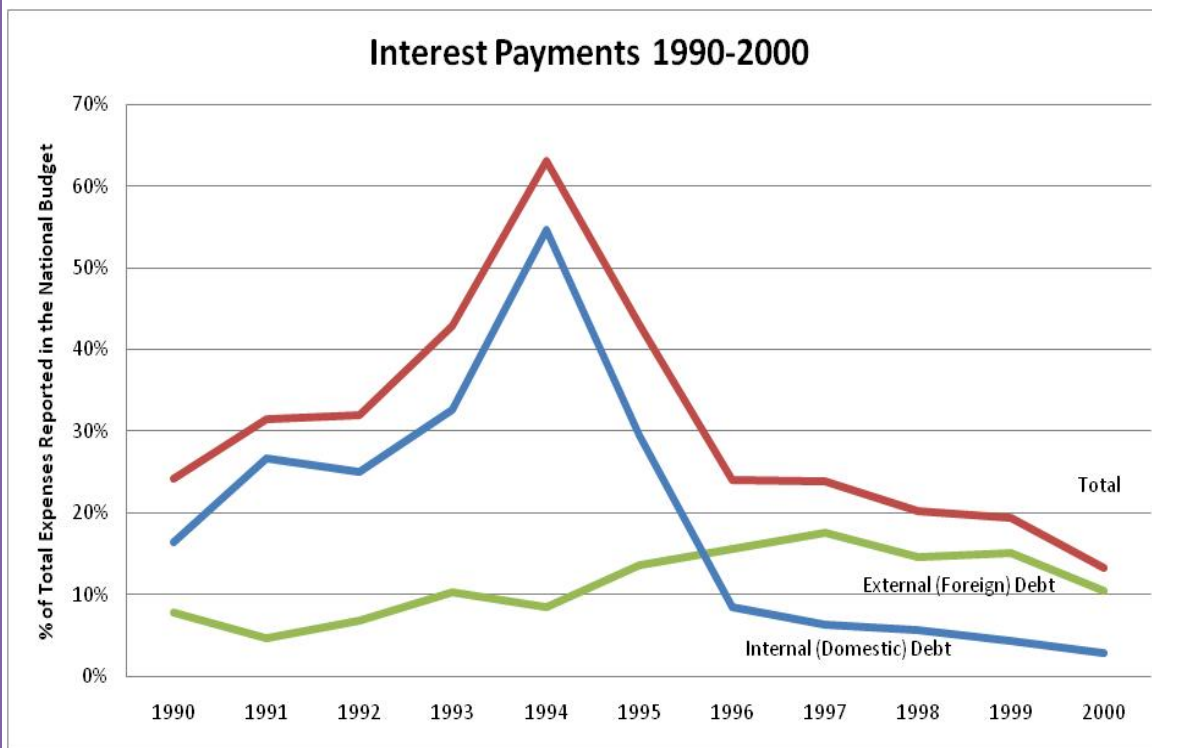


Table 5-7 includes an illustration of another major category's fluctuations – national debt as percentage of all expenses. The interest paid by Bulgarian governments for borrowing money peaks at around 60% of all expenses in 1994 as a result of the escalating internal – an therefore inflationary – debt of the government. Although much smaller, the fluctuations in the interest payments on foreign debt are still noticeable with a low around 5% of all expenses in 1991 and a high of almost 20% in 1997.

Table 5-7: Interest Payments as Percentage of All Expenses



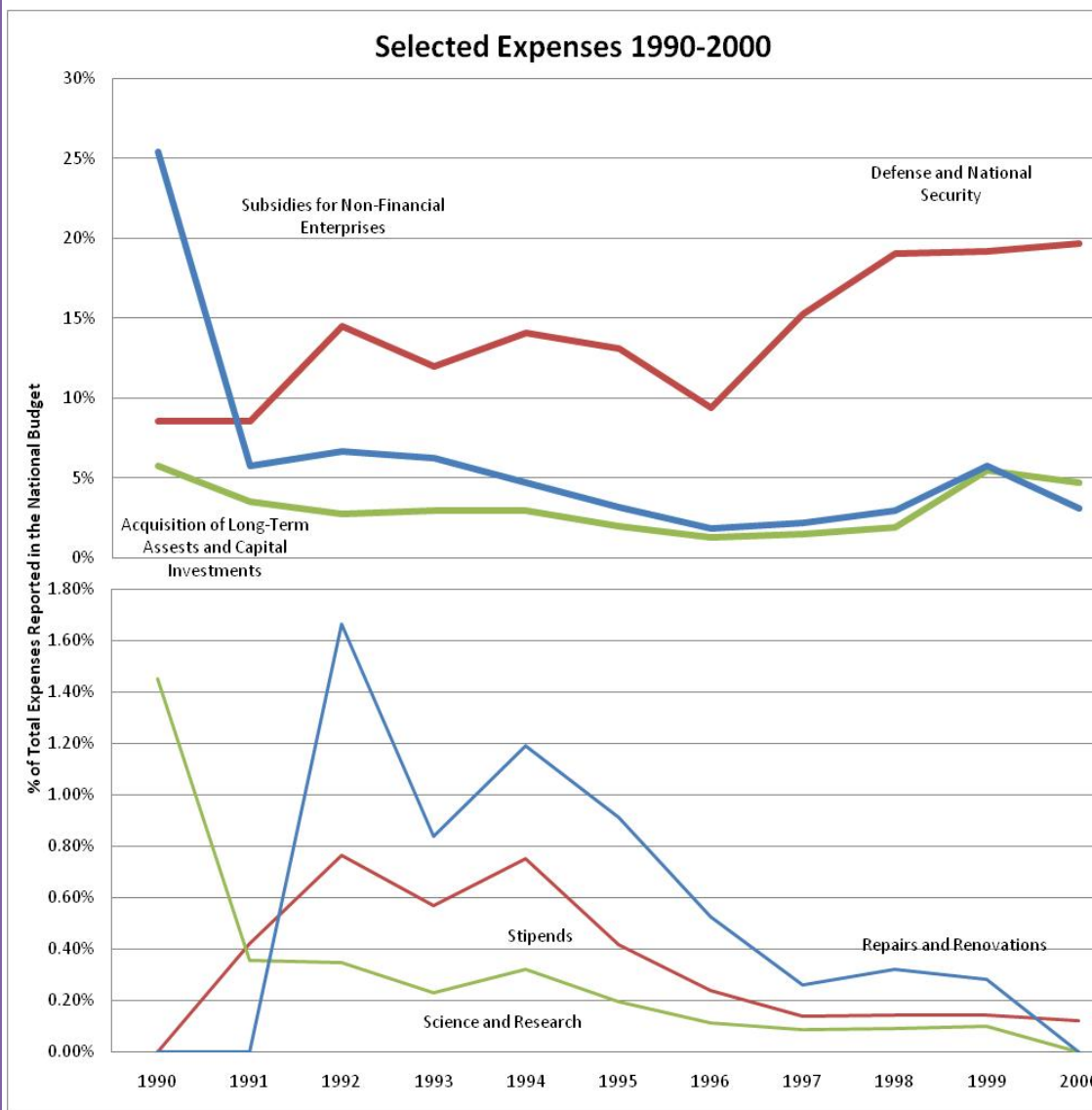
Source: Author's analysis of yearly state budgets of Republic of Bulgaria

Table 5-8 includes fluctuations in individual categories from all parts of the budgets. As a percentage of all government expenses, subsidies for non-financial enterprises have declined significantly (with a peak of 25% and a low of around 2%, but then an increase to 6% in 1999), which is consistent with the general anti-subsidy stance of reforms during transition. Defense and national security expenses also jumped up and down during the 1990s – below 10% in 1990 and 1990, close to 15% of all expenses in 1992, 1994 and 1997, and almost 20% in the late 1990s as NATO membership became both a goal and a possibility.

In the bottom part of the chart, the sharp decline and disappearance of the budgetary categories dealing with infrastructural issues (e.g. road renovation, repairs in

government and municipal buildings) and with research (e.g. funding for the Academy of Sciences) are most likely due to the separation of those expenses into out-of-budget programs. A good deal of road construction and renovation was done under EU's ISPA (Instrument for Structural Policies for Pre-Accession) program introduced in 2000. However, the earlier fluctuations in stipends and science & research can also indicate shifting government priorities and tight fiscal situation.

Table 5-8: Selected Fluctuations in Expense Categories

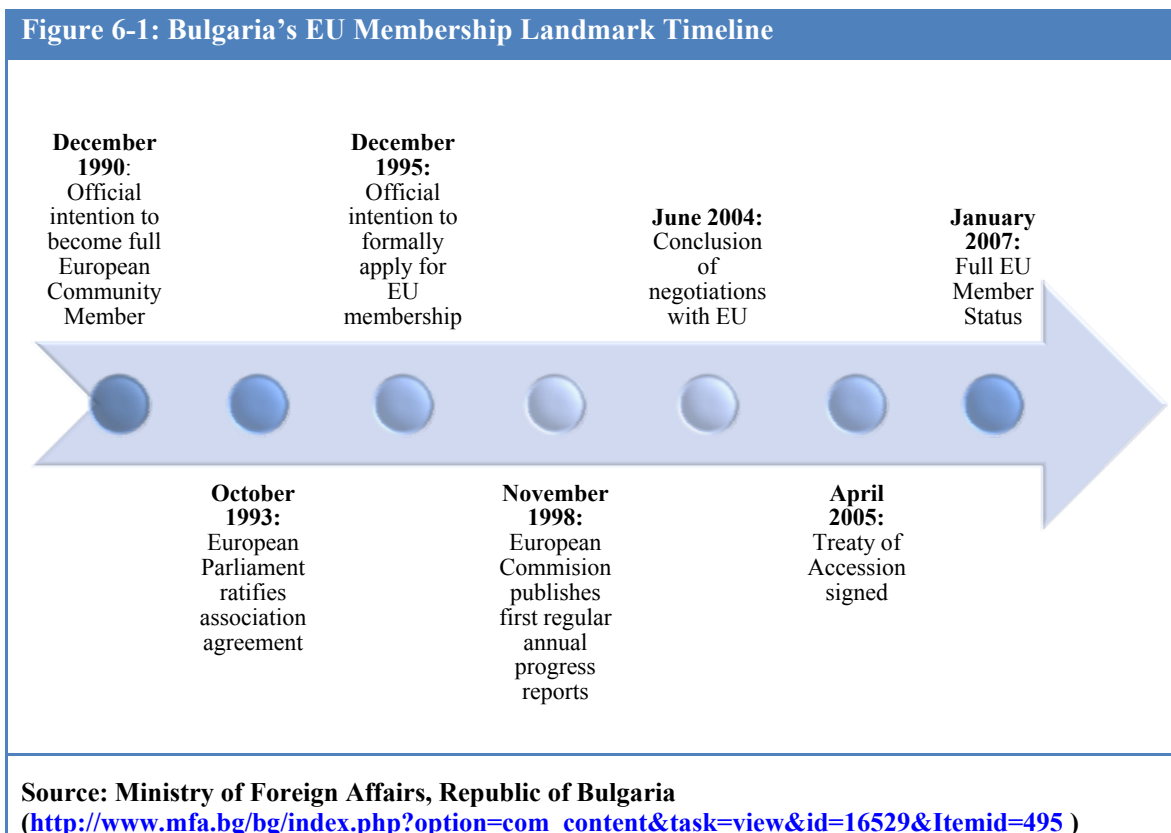


Source: Author's analysis of yearly state budgets of Republic of Bulgaria

6 Policy-Making during EU Capitalism: The 2000s

6.1 The Influence of the European Union

With the advent of EU aspirations, pre-accession, and membership, the importance of the IMF and the World Bank in Bulgaria declined. While IMF and World Bank memberships had to deal with stabilizing Bulgaria's finances and putting the country on the path to convergence (Anonymous, 2008), the decision to join the European Union (originally European Community) was based on both political and economic grounds. Although the original decision to pursue EU membership was made at the time of COMECON's breakdown, the formal process was not concluded until seventeen years later (see Figure 6-1).



Started as an initiative for economic and trade cooperation between its members after World War II, it is not surprising that the EU took a while to welcome former socialist countries into its realm – their economic indicators were subpar (Linden, 2008). Specifically, in 1997 Bulgaria’s GDP per capita was about one fifth of that of EU member countries (15 at the time). For the year of its accession Bulgaria’s GDP per capita was close to 40% of the average among members and around one third of that of EU 15 (European Commission, 2009c).

It is worth noting that the enlargement of the EU from 15 to 27 between 1995 and 2007 was clearly not motivated by economic concerns only. Currently, the GDP of EU-27 is still below the one of EU-15. In fact, the political nature of the Union is emphasized in the accession criteria applied to candidate members (see Figure 6-2). Those criteria span over a broad range of non-uniform political, economic, and administrative issues.

Figure 6-2: European Union Accession Criteria

COPENHAGEN CRITERIA:

Stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;

Existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;

Ability to take on the obligations of membership including adherence to the aims of political, economic & monetary union.

MADRID CRITERIA:

Conditions for its integration through the adjustment of its administrative structures, as underlined by the Madrid European Council in December 1995. While it is important that European Community legislation is transposed into national legislation, it is even more important that the legislation is implemented effectively through appropriate administrative and judicial structures.

Source: European Commission

(http://ec.europa.eu/enlargement/enlargement_process/accesion_process/criteria/index_en.htm)

For a number of former socialist countries the strategic political goal of EU membership was at odds with the economic goal of EU membership. In the early 1990s, production levels in Central and Eastern Europe (CEE) were hit by the demise of COMECON and the Soviet Union – 11% decline in 1991 and 4% in 1992. During the same period, the fall was aggravated by the European Community’s protectionist measures against agricultural products, steel, and textiles, i.e. CEE’s sectors in, relatively speaking, best shape at the time. EU trade barriers were removed later, but growth in CEE countries remained uneven (Linden, 2008).

Although there were EU programs in place to assist former socialist countries’ economies, their focus was shared between legal, administrative, and financial support (for infrastructure and agriculture). The main pre-accession program Phare started in 1989, for instance, aimed at institution building, legal convergence, and economic and social cohesion (European Commission, 2009e). SAPARD, the agricultural assistance program started in 1999, targets agricultural reform and support for rural areas (European Commission, 2009f). Finally, the infrastructure support program ISPA started in 1999, assists with funding of large-scale infrastructural and environmental projects (European Commission, 2009d).

Pre-accession reform in Bulgaria was thus geared towards establishing the “right” institutions and the “right” laws, i.e. administrative capacity. Dimitrov et al. (2006) stress that during the pre-accession period EU’s approach was to shift focus on establishing linkage institutions while marginalizing extensive reforms. Hence, the authors point out, in the years preceding 2005 and 2007 enlargements, EU support changed from being

demand-driven to being accession-driven. In other words, following its reforms aimed at achieving macroeconomic stability, Bulgaria had to implement reforms aimed at formal readiness to join the EU.

Following its accession in 2007, EU financial support for Bulgaria has been directed in three main non-fiscal areas: agriculture, structural actions, and internal policies. In agriculture, the goal of EU funding is to replace local policies and subsidies, improve markets, and further rural development. Structural actions are geared towards infrastructural and environmental projects including regional development. The internal policies supported by the EU include social- and energy-related expenses, nuclear safety, and institution building (World Bank, 2006).

At the same time, the EU has been working on redefining its industrial policy framework to address the challenges of the new economy. Important parts of this new industrial policy are the cross-sectoral initiatives aimed at improving the business environment for a number of sectors (if not all) of the economy. The corresponding areas/initiatives are: (1) development and enforcement of intellectual property rights, (2) research on synergies between competitiveness, energy, and environment, (3) access to international markets, (4) simplified legal environment, (5) improved sectoral skills, (6) structural change in manufacturing, and (7) integrated industrial research and innovation (European Commission, 2005).

In addition to the cross-sectoral initiatives, the EU has been in the process of assessing the strengths, weaknesses, and potential of specific key sectors: pharmaceuticals, biotech, chemicals, defense, space, IT, and mechanical engineering. The overarching goal

is to combine initiatives that can contribute to all sectors of the economy with sector-specific programs in a comprehensive industrial policy effort (European Commission, 2005).

Within the larger EU framework, each country develops general and sectoral development plans that reflect its own priorities for a period of six 6 years. The larger strategic documents are similar to the socialist five-year plans. There are important differences: the ideology behind the plans has changed, the priorities are different, and the new plans cover seven instead of five years. Still, the logic of outlining the long- mid-term strategic direction for the country and the ways to pursue that strategy is the same. Next, I review the two EU-motivated and EU-required plans that Bulgaria has outlined and pursued during the 2000s.

6.2 National Economic Development Plan (2000-2006)

After the chaos from the 1990s, the National Economic Development Plan (NEDP) is the first strategic document tackling long-term social and economic issues in a comprehensive fashion. The document focuses on aligning Bulgaria's strategic direction with EU pre-accession funds and programs. The NEDP purpose is to perform an analysis of the factors (internal and external) that influence the country's development, outline the challenges the country is facing, define a vision and strategic priorities for the seven-year period, and plan the implementation of all of these (Council of Ministers, 1999).

The priorities outlined by the NEDP are summarized in Figure 6-3 in their actual order. As argued by Dimitrov et al. (2006), the main priority for the 2000-2006 period is harmonization of Bulgarian laws with European legislation. The focus there is on

adopting new laws or changing existing laws, establishment of new central and local administrative units and general reform in public administration. Still, economic goals and industrial policy are a top priority ranking second on the list. The NEDP proceeds to delineating the means to achieve better competitiveness through creating an environment that stimulates the economy's competitive advantages and its exports, a better financial sector, a technologically advanced manufacturing, enhanced managerial practices, and a more liberalized economy (Council of Ministers, 1999).

Figure 6-3: List of Priorities in the National Economic Development Plan

- 1. Establish an institutional system harmonized with European legislation**
- 2. Improve the competitiveness of Bulgarian economy**
- 3. Speed up the construction and improvement of quality of basic infrastructure and ecology**
- 4. Improve the quality of life and adaptation of human resources to the new economic conditions and European integration**
- 5. Establish a regionally balanced sustainable development**

(Council of Ministers, 1999)

The industrial policy proposed by the NEDP reflects the EU's orientation towards horizontal/cross-sectoral, programs. As stated in the NEDP, the Bulgarian government sets to adopt measures to stimulate investments, innovation, and product quality, increase cooperation with and between non-governmental organizations and business associations, and offset accumulated environmental problems. Along with this set of measures, the NEDP puts an emphasis on the use of advanced technologies and research in all sectors of the economy. To achieve that, the government promises more sectoral support to high-tech companies, an improved legal environment for those companies, and more funds for science and research (Council of Ministers, 1999).

In addition to the lateral and sectoral policies, NEDP promises support to the small and medium enterprises (SME) in the country – another top EU priority in recent years. NEDP does so by acknowledging the need for a network of business incubators across the country. It also pledges to provide financial support to the export-oriented SME and other support that would assist those SME in their establishment on foreign markets. Business incubators are expected to play a variety of roles in promoting SME including technical and infrastructural support, consulting services, information services, and access to business/trade networks (Council of Ministers).

6.3 National Development Plan (2007-2013)

The main objective from the NEDP was accomplished when in January 2007 Bulgaria joined the European Union. Adopted in 2005, the NEDP's successor – the National Development Plan – outlines the strategic goals of the country for the next 6-year period. The priorities listed in the NDP are outlined in Figure 6-4 in the respective order. All of those priorities are intended to support the two strategic goals – sustainable high economic growth and high living standard based on high quality human capital (Agency for Economic Analysis and Forecasting, 2005).

Figure 6-4: List of Priorities in the National Development Plan

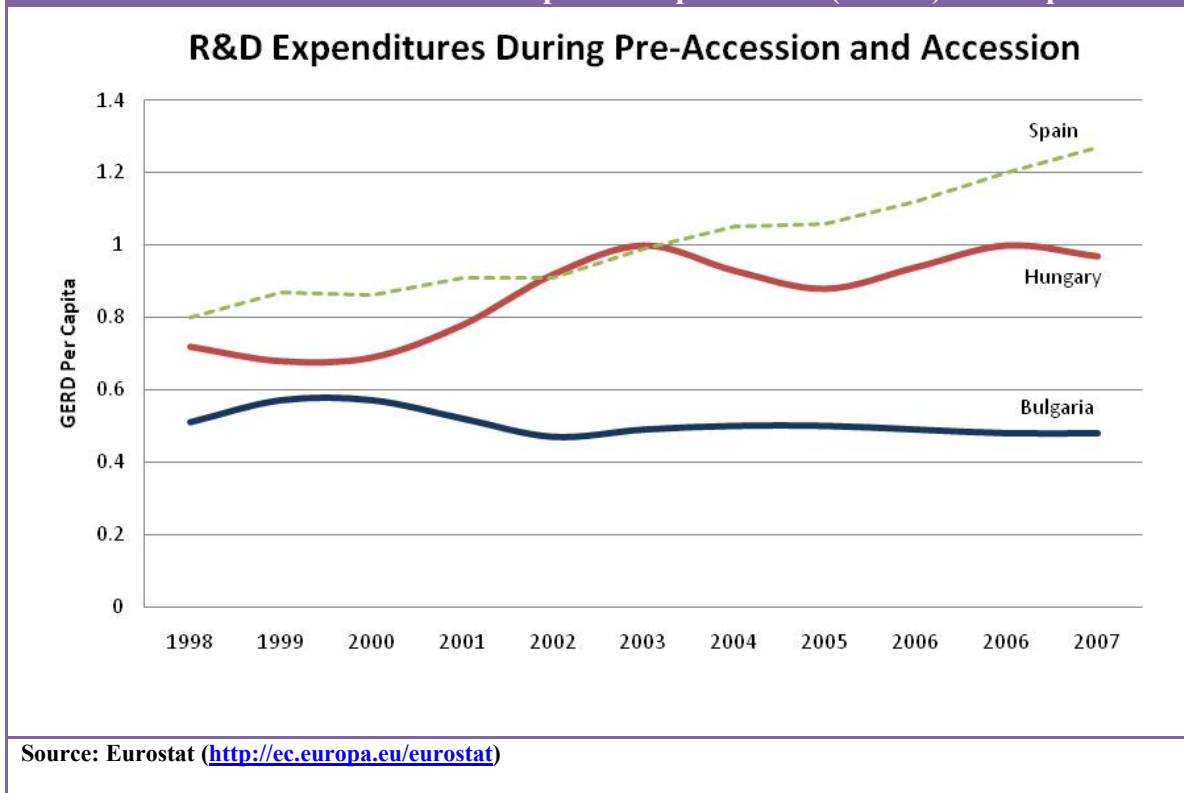
- 1. Improve the competitiveness of Bulgarian economy**
- 2. Development of human resources and improvement of social infrastructure**
- 3. Improvement and development of basic infrastructure**
- 4. Development of agriculture and rural regions**
- 5. Sustainable and balanced regional development**

(Agency for Economic Analysis and Forecasting, 2005)

The industrial policy spelled out in the NDP targets five core areas: (1) SME, (2) natural monopolies, (3) innovation, (4) tourism, and (5) energy efficiency. The policy's objectives are to increase SME productivity and capacity to export, deregulate and privatize natural monopolies, increase innovation by providing more funding and getting SME involved, support tourist-oriented businesses, and increase the efficiency of energy use in the country (Agency for Economic Analysis and Forecasting, 2005). Throughout the NDP these objectives are tied to the EU Lisbon Strategy, which aims at making the Union's economy "the most competitive economy in the world and achieving full employment by 2010" (European Commission, 2009a).

There is some evidence of success of the SME policies during the 2000s. The evidence is discussed in the next section. However, the country has not been able to improve the other crucial component of a more competitive economy – innovation. Table 6-1 presents recent numbers on R&D expenditures in the same format as Table 5-4. With very slight fluctuations Gross R&D Expenses (GERD) in Bulgaria have stayed around 0.5% of GDP during the 2000s. While in the late 1980s Bulgaria was heavily investing in R&D, this is not the case in the 2000s. Hungary's GERD, although fluctuating during the 2000s, has climbed back to the levels in 1990. EU member Spain's GERD, on the other hand, has slowly, but steadily grown over the past thirty years and is now above Bulgaria's. It is worth noting that Spain's current GERD is still significantly below the one of Bulgaria in the late 1980s.

Table 6-1: Gross Research and Development Expenditures (GERD) Per Capita



6.4 Industrial Policy during the 2000s

As a full member, Bulgaria's current and future industrial policies are guided by the new EU industrial policy framework. It is too early to observe any effects of those policies in Bulgaria because some of them are still in the works and the global economic crisis from 2008 has disrupted the normal operations of EU member countries. However, some of the effects of previous EU-guided policies in Bulgaria can serve as a basis for contrasting Bulgaria's 2000s with its 1990s.

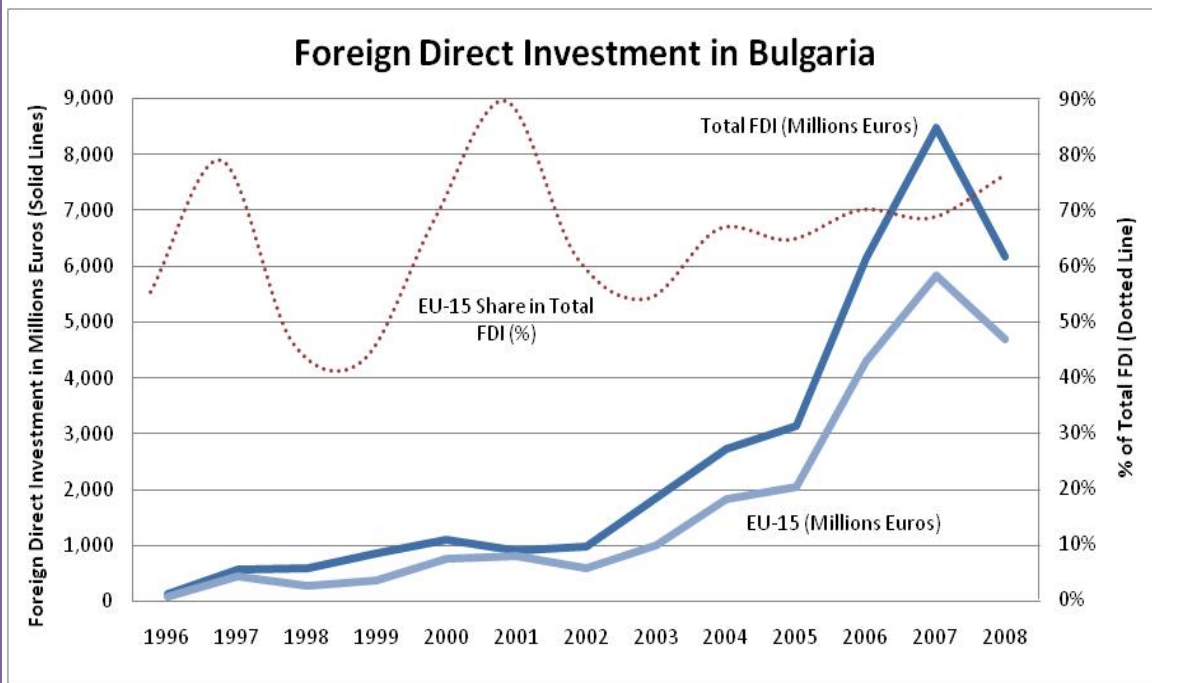
Based on the NEDP and the Lisbon Strategy, in 2005 Bulgaria implemented a strategy to attract investment in the country's economy. Resulting from collective efforts of government, academic, and non-governmental organizations, the strategy sees investment (foreign and domestic) as a key to raising the country's level of

competitiveness. The report acknowledges positive growth in all sectors of the economy during the early 2000s, due in part to a growing flow of foreign investment into the country, and pledges to tackle the areas that prevent more investment from coming into the country (Ministry of Economy, 2005).

Among the areas that the strategy sets to address are simplified administrative and legal environment, infrastructure, more qualified labor force, and support for investment in high-tech sectors. By continuing to attract more investment, the strategy plans to achieve overall GDP growth, higher productivity, higher living standard, and more employment in the country. The larger objectives are broken down in specific targets attached to each area outlined in the strategy. In addition, specific measures are included for each area (Ministry of Economy, 2005).

Table 6-2 shows that with the exception of the end of the 2000s (i.e. the period of global economic crisis) foreign investment (FDI) in Bulgaria has been rising since the mid-1990s. In particular, overall FDI has sharply increased during the pre-accession period targeted by the strategy to attract investment – from 3.1 to 8.5 billion Euros between 2005 and 2007 (the scale in the left side of the chart). The dotted curve on the chart follows the share of EU-15 (i.e. the countries before the Union's enlargement in the 2000s) in the overall FDI and is currently close to 80% (the scale in the right side of the chart).

Table 6-2: Dynamics of Foreign Investment in Bulgaria

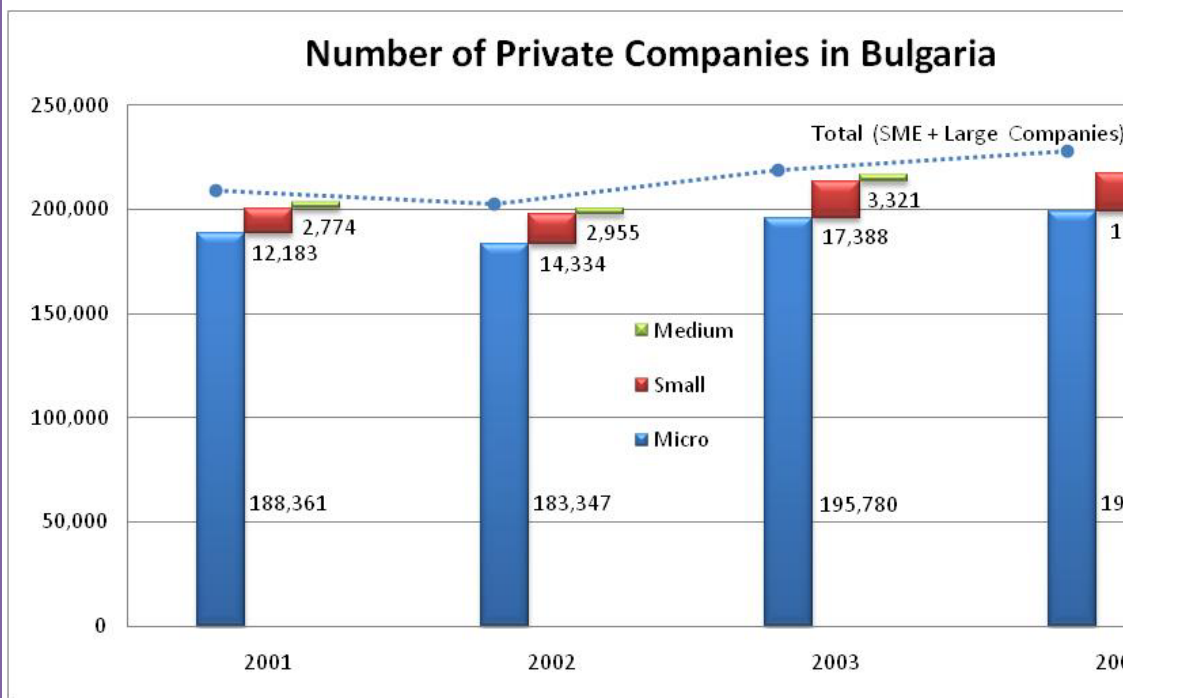


Source: Bulgarian National Bank (<http://www.bnb.bg/bnb/home.nsf/fsWebIndexbul?openframeset>)

Initiated along with the country's first real steps to join the European Union (see Figure 6-1), the policy for assisting small and medium enterprises (SME) is one of the core EU industrial policies (European Commission, 2009b). In 1999 Bulgaria passed a Law for Small and Medium Enterprises and set up a government agency to administer SME programs (BSMEPA, 2007). Since its inception the policy has generated an average yearly rate of increase in the number of people employed by SME of about 3% (National Statistical Institute, 2001; 2006). The most recent data show that about 10% of the workforce employed in the private sector is employed by SME (National Statistical Institute, 2006).

With the exception of 2002, the number of SME has grown during the early 2000s (see Table 6-3). Representing 99% of all companies, SME are composed of micro (1-9 employees), small (10-49 employees), and medium (50-249 employees) companies that employ less than 250 individuals (National Assembly of the Republic of Bulgaria, 1999). As the chart shows, overall growth in the population of all companies is led by the number of micro enterprises. In 2002, that number slightly dipped and lowered the total along with it. At the same time, the numbers of small and of medium companies consistently steadily increased over the period. Hence, using a population/organizational ecology argument (Carroll and Hannan, 1995), the growth in the population of SME reflects an overall favorable environment, which is consistent with the SME policy outlined in the early 2000s.

Table 6-3: Number of SME and large companies in the early 2000s



Source: (Ministry of Economy and Energy, 2006)

SME's importance in the economy has been growing during the 2000s and the most recent numbers show that in 2004 they accounted for over 70% of all cash flows in the private sector (Ministry of Economy and Energy, 2006:46). However, the SME sector suffers from serious setbacks that the mid-2000s policy is trying to address. Identified in a 2006 official report, the most important weaknesses of Bulgarian SME are their low productivity and overall low managerial and technological expertise. As a result, SME and their output are not internationally competitive. The mid-2000s SME industrial policy thus prioritizes education and training with the ultimate goal to increase SME share in Bulgarian exports (Ministry of Economy and Energy, 2006).

7 Conclusion

Before proceeding with a conceptual analysis and summary of policy-making during late socialism, transition, and EU capitalism, I tell three stories that compare the paths of three former socialist “champion” enterprises. These stories offer a glimpse of the fates of major socialist enterprises as they struggled with the changes in political, economic, and legal environments. The stories also show the impact of changing international regimes on established, institutionalized organizations.

7.1 Stories of Socialist Champions

7.1.1 Kremikovtzi (Steel)

Poets from socialist times used to write about giant smoking chimneys and hard-working laborers. Founded in 1959 and operating since 1963, the steel plant Kremikovtzi was everything a socialist heart could desire. It was – and still is – huge. The biggest steelmaking factory in the Balkans, it was built near iron ore deposits and upgraded throughout the 1960s and 1970s to produce steel and a variety of related products, but its technology was most effective using high-content ore. After all upgrades were completed, Kremikovtzi was a vertically integrated structure that covered the whole cycle – from extraction to finished product including all supporting activities (DeltaStock, 2007; Kremikovtzi AD, 2007).

In the words of Mr. Angelov, Kremikovtzi was a successful social project and an unsuccessful economic one (Angelov, 2008a). In fact, Hristov (2007) cites former leaders who report that Kremikovtzi was conceived without prior research and project evaluation. Hence, it is an example of earlier socialist industrial policy that put economic aspects like

efficiency and profitability behind social ones. However, what has saved the company during the 1990s and the 2000s is its “too big to fail” (Gup, 2004) status. Until recently, it accounted for almost 2% of the Bulgaria’s GDP and contributed 10% to the value of the country’s exports to the EU. Kremikovtzi used to employ 7,000 persons and it used to provide an additional 5,000 jobs indirectly. The company’s reach extended to the transportation sector (30% of all railway freight), energy sector (3% of National Electric Company’s revenue), and social services (13% of the Pension Insurance Fund (Kremikovtzi AD, 2007).

Privatized in 1999, the company’s 1990s were quite tumultuous. Torn between international steel markets and local political interests, Kremikovtzi saw managers come and go with almost every change in the national government and its privatization evaluation drop throughout the 1990s. Public for most of the 1990s, the company realized losses equivalent to millions of dollars. With steel markets recovering and the company restructuring, its financials showed improvement towards the mid-1990s. In 1997, restructured and ready for privatization, but still under public control Kremikovtzi registered a profit of about \$1.5-2 million. At times, during the 1990s, the company received significant financial injections and concessions from the state while at others it saw most of the interest payments on its loans taxed. During that period, Kremikovtzi was a part of in several corruption signals and scandals¹⁷.

¹⁷ This paragraph is based on compiled information from newspaper articles from *Capital Weekly* and *Pari Daily* (articles used: Alexandrova and Todorova, 1998; Capital, 1997a; Capital, 1998b; Capital, 1998c; Capital, 1998d; Capital, 1998e; Capital, 1998f; Capital, 1999a; Capital, 1999d; Georgiev, 1994; Ilieva, 1997; Mihalev, 1998a; Mihalev, 1998b; Stefanova, 1993a; Stefanova, 1993b; Stefanova and Todorov, 1993; Tkachova, 1997a; Tkachova, 1997b; Tkachova, 1997c; Todorov, 1995; Vulcheva, 1993).

The start of the negotiations with the European Union affected Kremikovtzi in two ways. First, the EU offered an extended grace period allowing subsidy from the Bulgarian state to the steel sector (ECORYS Research and Consulting, 2008). However, that period is now over and the Union has strict regulations against government aid to the steel industry. In addition to significant subsidy restrictions, the EU demanded that Bulgaria draft a strategy for reorganizing its steel industry. Second, while restricting government subsidies on the one hand, EU environmental policy on the other hand, required the “cleaning” of steel production (Capital, 1999a; Capital, 2003; Mihalev, 1999; Vasileva, 2008).

As a private shareholder company, Kremikovtzi changed owners in 2005 and is currently run by a holding company owned by Indian steel maker Ispat Industries. Spent in the private sector, Kremikovtzi’s 2000s were as controversial as its 1990s. The company’s problems during the 2000s stemmed from difficulties in international steel markets and EU environmental requirements. The private owners never invested in upgrading the dirtiest part of its production – the coke chemical furnace. Operating at a loss in 2005 and 2006, earning profit in 2007, the company filed for bankruptcy in the end of 2008 and stopped operations in 2009. Its future is unclear ranging from partial restoration of operations to complete and permanent closure (Vasileva, 2008).

7.1.2 Neftochim (Refinery)

Another champion that resulted from the policies that emphasized the development of heavy industries was Neftochim – an oil refinery built on the Black Sea coast to process oil imported from the USSR. Along with Kremikovtzi, Neftochim has

traditionally topped the charts for revenues in the country (Capital, 2008). Currently, it produces 9% of Bulgaria's GDP, it is responsible for 25% of the country's tax revenues and has a chain of gas stations (owned and franchised) that holds 26% of the market share in retail gas sales (Lukoil Bulgaria, 2009).

Similar to Kremikovtzi, Neftochim's 1990s were turbulent. Privatized in the end of 1999, Neftochim was incurring losses throughout the period preceding its privatization and was receiving subsidies during the transition period. Allegations of collusions between the refinery's management and political elites were common. At the same time, the state-owned company was routinely fined by the state's own antitrust authorities. Since its privatization the refinery has had mixed results – it operated at a loss in 2006 (around \$15 millions) and 2008 (around \$300 millions) and at a profit in 2007 (around \$70 millions). Although still in business, the refinery's old technology and equipment raise questions about its long-term viability¹⁸.

7.1.3 DZU (*Information Technology*)

Founded in 1968 DZU was a part of the IT sector prioritized during late socialism. As a result, DZU's production lines were expanded and in the 1980s the enterprise was producing a wide range of disk drives for the COMECON markets. During the second half of the 1980s, DZU got involved in the efforts of Bulgaria to circumvent

¹⁸ This paragraph is based on compiled information from newspaper articles from *Capital Weekly and Pari Daily* (articles used: Alexandrova, 1997a; Alexandrova, 1997b; Alexandrova, 1998a; Alexandrova, 1998b; Alexova, 1997; Capital, 1997b; Capital, 1997c; Capital, 1998g; Capital, 1999a; Capital, 1999b; Capital, 1999c; Capital, 2003; Capital, 2008; Georgiev, 1994; Hristova, 1994a; Hristova, 1994b; Hristova, 1994c; Karaev, 1994; Lazarova, 1992a; Lazarova, 1992b; Lukoil Bulgaria, 2009; Nedelchev, 1994).

CoCom¹⁹ embargo restrictions and bring Western technologies into the country. As hinted in Bulgaria's Ninth Five-year plan, those efforts were an important part of the technological rejuvenation of the country's economy during late socialism. In addition, during that period DZU became a part of a joint IT effort with the USSR called "Neva" to exchange and update Bulgarian and Soviet hard drive productions. However, DZU technological upgrades were slow, "Neva" got delayed, and eventually failed with the collapse of COMECON and the Soviet Union (Doinov and Dimitrova, 2002:255-317).

Still, in 1989 DZU was the enterprise with the highest profit in Bulgaria. The enterprise's momentum was lost with the dissolution of COMECON, but it was still generating profit in the early 1990s. The company stopped producing hard drives in 1993 and focused on the production of optical storage and certain household electronics. Owned by the state, in 1993 DZU was targeted by the state's tax authorities. Later in the 1990s, the company faced piracy charges and investigations from intellectual property law enforcement. At the time of its privatization in 1999 to Hungarian Videoton, DZU was facing liquidation. Currently, production capacity is scaled down, but the DZU is still operational²⁰.

7.1.4 The Former Champions

The industrial policies, under which Kremikovtzi, Neftochim, and DZU were created, were different from the ones in place during the late 1980s, the 1990s and the

¹⁹ The Coordinating Committee for Multilateral Export Controls was a Cold War institution established to block a variety of exports (mainly technology) to the former communist countries (see Mastanduno, 1992)

²⁰ This paragraph is based on compiled information from the company's web site and articles from *Capital Weekly*, *Pari Daily* and *Investor.bg*. (sources used: Atanasova, 1992; Atanasova, 1993a; Atanasova, 1993b; Capital, 1998a; Capital, 1998f; Capital, 1998h; Capital, 1999a; Capital, 2003; Duncheva, 1993; DZU, 2009; Gruev, 1994a; Gruev, 1994b; Gruev, 1994c; Gruev, 1995; Pari, 1995; Popova, 1995a; Popova, 1995b; Yordanov, 2001).

2000s. Whereas the policies during the second half of the 1980s had focused on upgrading the enterprises' technology and making them more competitive, the ones from the 1990s were centered mainly on their privatization. None of the governments during that period dared to close it because of the influence (economic and social) the company had. At the same time, the companies were subject to and involved in local political bickering, corruption, Washington Consensus privatization demands, and employment/community needs. The state's overall engagement in the steel sector reflects the institutional disorder that reigned during the 1990s.

All three former champions had troubles with politicians and the law during the 1990s. Many times those troubles were related because old economic mechanisms and institutions were no longer in place while new ones were slow to build. While governments were changing frequently during the 1990s, all large enterprises from socialist times were subjected to political, economic, legal, and social pressures (Tchalakov, 2008c). Those pressures were not surprising given the volatile political environment, weak institutional framework, and concentration of capital and cash flows in large public companies.

The experiences of the three former champions mirror changes in the overall economic environment and policies during late socialism, transition, EU capitalism. None of those were in danger of closing during the 1980s even though the second half of the period saw increased introduction of market principles in the economy. As demonstrated earlier, large-scale projects did not have to go through the same competitive funding process other enterprises were subject to during the second half of the 1980s. Still, late

socialism brought policies that were geared towards increasing the competitiveness of the three champions. The latter was needed because, as was the case with the Bulgarian economy as a whole, the three enterprises were highly dependent on foreign trade.

Most attempts to make the country's economy more competitive and market-oriented from the 1980s, regardless of how effective they actually were in practice, were cut short by the changes from 1989. The industrial policy paradigm in place during the early 1980s was that of a "demiurge" (Evans, 1995:3-20), where the state directly engages in the production of goods and services. However, the mid-1980s mark a departure from that role introducing elements of Evans's "regulator" type, where the state creates the rules, but allows economic agents to act within the established framework.

Without a consistent strategic policy paradigm, the three champions' experiences from the 1990s were schizophrenic. First, governments were keeping champions afloat as they were getting ready to privatize them, but were also trying to appeal to the majority of voters who were directly or indirectly dependent on the champions. Second, governments were acting on behalf of the emerging new legal institutions like intellectual property rights and profit taxes and had to punish any public enterprise that was pursuing its economic goals in violation or ignorance of those new rules. Third, government actions in favor or against public enterprises were sometimes purely predatory (for the "predatory" policy type see Evans, 1995:43-73) because of politicians' individual "needs" or their parties' needs for campaign contributions.

The 2000s presented new challenges to the three champions. Privatized under sometimes controversial conditions the companies survived during the EU pre-accession

and early accession periods. However, due to EU regulations, Kremikovtzi and DZU are now very different companies. Shortly after the privatization, the new owner of DZU shipped its CD-producing equipment abroad, where it already had the necessary licenses to make CDs. Inefficient and polluting, Kremikovtzi, on the other hand, stopped operations in 2009 due to financial difficulties. The Bulgarian state can no longer intervene as the EU prohibits this.

7.2 Industrial Policy and Institutional Change

Bulgarian policy-making has been shaped by a succession of multinational regimes: COMECON before and during the 1980s, Washington Consensus during the 1990s, and European Union during the 2000s. Each of these has produced incomplete transformations of Bulgarian policy and practice. The reforms from the late 1980s were abandoned before they were completed since the Washington Consensus presented an alternative set of reforms. On the other hand, the Washington Consensus reforms were not accomplished to the degree they were supposed to be within the designated period. Currently, EU reforms in Bulgaria are implemented within the context of both communist and transitional legacies.

When former socialist countries saw their political regimes crumble in 1989, most people in those countries were euphoric over the demise of their non-democratic political regimes. The joy over the fall of the Berlin Wall symbolized that euphoria and embodied the collapse of a geopolitical division between East and West that had lasted several decades. However, changes in political systems also meant changes in economic systems of the countries from the former Soviet bloc. Unlike some quick political and symbolic

changes (e.g. ousting/executions of heads of state, removal of political party restrictions), the economic aspects of transition required much more thoughtful consideration.

With very few economists familiar with the workings of market economies, the former socialist bloc turned its eyes to professionals from the West. Neo-liberal economists were dispatched to Central and Eastern Europe. Lead by Richard Rahn and Ronald Utt, a U.S. Chamber of Commerce team drafted a plan for Bulgarian transition (Binder, 1990) with commitment and fervor comparable to those of religious missionaries. That plan fit within a larger framework – the Washington Consensus – that prescribed neo-liberal economic reform steps for the whole region. Among other assumptions, the Washington Consensus prescriptions assumed that transition could be accomplished quickly: immediate thorough reforms followed by a short period of adjustment and, in the end, stabilization.

Through its institutional agents and local politicians, the Washington Consensus paradigm put in practice the steps necessary to reach an ideal model of capitalism. However, due to the gap in expertise and reputation of Western and Eastern economists, in most cases local politicians and institutions were policy-takers rather than policy-makers. The World Bank and the IMF thus actively tried to produce a particular type of market capitalism while leaving little or no room for contingencies and variations. Nonetheless, such variations should have been thought of as inevitable since historical, cultural, and political contexts were different across the former socialist bloc.

By sticking to abstract mathematical models divorced from actual contexts, the Washington Consensus is in line with positivist thinking (like the ones behind the

epistemologies critiqued in Chapter 3). My study has shown that the part of Bulgarian policy-making guided by the Washington Consensus was very different from the part guided by EU principles. The country's industrial policy during the 1990s was virtually non-existent with the state focused on tackling short-term macroeconomic issues. The economic liberalization actions taken in the 1990s pushed the country into a severe recession that left little room for longer-term strategic planning. The prediction of the Washington Consensus had been of course that once a private market was at work, it would take care of everything, provided institutions were in place to support it.

The theoretical narrow-mindedness of the Washington Consensus framework thus resulted in inadequate policy recommendations. The economic models constructed outside of Bulgaria and used by the IMF to set the targets Bulgarian governments had to meet during the 1990s have proved to be unrealistic, as the majority of those targets were never really met. A number of authors (neo-institutionalists, transitologists and others) question the very applicability of variable-based approaches – the approaches used by the Washington Consensus. Pierson (2004:1-2) eloquently likens the use of variables in social science to using ingredients in cooking. The order in which a chef uses ingredients, he claims, makes a difference. Similarly, the order of historical events and the surrounding contexts are crucial to a good understanding of social dynamics.

Studies of institutional change and transitology consisting of such studies, should thus be attuned to local contexts and variations. Although earlier transitology works have mostly used the Washington Consensus type of approach to transition, more contemporary transitologists are opening up to a wider range of contingencies. Earlier

transitologists would look at variations across different transitions (e.g. inflation, unemployment, exchange rates) in order to determine which transition country is moving faster or what factors slow down a country's transition. Nonetheless, such contingencies would not jeopardize the general model applied to countries in transition.

Some contemporary transitologists (Brabant, 1998; Eyal, Szelényi, and Townsley, 1998; Outhwaite and Ray, 2005) and neo-institutionalists (Benson and Kim, 2008; Dobbin, 1994; Prechel, 2003) in practice extended the idea of contingencies to include broader contexts. In this sense, contexts can actually challenge any normative model that is applied to policy-making²¹. For example, Prechel's (2003) historical contingencies refer to historical contexts that shape policy outcomes. Within the same system, these contexts can produce different policy outcomes. Contexts are thus responsible for the lack of strict boundaries around real-life policy models.

7.3 Contextuality

Experiences from the former socialist bloc, recounted in Chapters 4-7, confirm the importance of recognizing the role of local contexts. While it is widely recognized that by 1989 Hungary had a well established private sector (Rona-Tas, 1997), Bulgarian economic reforms from the second half of the 1980s are usually discounted as fake or shy (Elster et al., 1998; Tchalakov, 2008b). However, my analysis shows that the latter conclusion rests on personal opinions more than on facts. A part of the reasons why that is the case is that Bulgarian economic reforms were effectively halted by the political

²¹ Contingencies, in a narrower sense, represent different values of a variable or variations within a model, say inflation of 15% in one case vs. inflation of 7% in another case. In a broader sense, contingencies refer to larger contexts, i.e. differences that challenge economic models.

changes of 1989-1990. Knowing how long transition took in the 1990s, it would be unrealistic to expect market socialism to be fully developed between 1985 and 1989.

Still, there are clear indications that some of the reforms undertaken in the late 1980s in Bulgaria had lasting effects. Lauded (e.g. Angelov, 2008b) or despised (e.g. Hristov, 2007), Decree 56 served as the foundation of the Bulgarian private sector during the 1990s. This form of horizontal industrial policy remained even when vertical (i.e. sectoral) socialist industrial policies were shut down. Even some vertical industrial policies from socialist times remained during the 1990s supported by leftist, rightist and centrist governments. For instance, shutting down the biggest state-owned enterprises in the 1990s would have lead to disastrous results.

Through an integrated theoretical and methodological framework, my project has refrained from imposing formal assumptions on historical data or explaining historical processes through formal cross-national comparison. My incorporated historical comparative analysis has shown that national industrial policies can no longer be explained by focusing on individual nation-states because nation-states themselves are subject to the policy paradigms of international regimes. Bulgarian industrial policy before and during the 1980s was a combination of national and international (i.e. COMECON) efforts. In the 1990s, the nation state *and* the Washington Consensus institutions produced the country's industrial policy. In the 2000s, Bulgarian industrial policy was developed in light of EU policies. Thanks to the context-oriented nature of incorporated comparison and sequential analysis, I have been able to look at policy transformations *in conjunction with* changing international regimes.

7.4 Meta-Power

According to McGinty, Burns, and Hall (Forthcoming), meta-power is the process of establishing contexts (e.g. cultural and legal) for collective and individual actors to pursue their interests and intentions. Meta-power thus extends to actors, institutional arrangements, and social structures over time and space. The authors contend that meta-power can be manifested through agents – powerful actors/collectives who shape specific policies – or through structures in the form of rules or organizations.

The concept helps explain an important factor that contributed to failure of IMF and World Bank policies in Bulgaria during the 1990s. Through meta-power, manifestations of policies and practices adopted before the 1990s were present during the implementation of Washington Consensus policies and transformed those in unpredictable ways. Rather than attaching value judgment to communist legacies (i.e. burdens), meta-power offers a value-neutral way of conceptualizing the interactions between different policies. Since EU industrial policies are in a number of ways midway between socialist and capitalist ones, it is not surprising that some of the horizontal policies (e.g. SME, R&D) have returned to Bulgaria in the form of EU industrial policy.

I have argued that the one-size-fits-all approach to policy during transition from communism to capitalism has not succeeded. Promoted by Western economists and Eastern politicians, the Washington Consensus failed in two ways. First the Shock Therapy (a.k.a. Big Bang) approach to transition – change everything at once – created institutional ruptures that could have been avoided. At the same time, Shock Therapy did not change everything at once. Whereas price-capping and similar financial tools were

easy to change overnight, policies and established economic structures were not. Today, the argument of who is to blame for the failed prescriptions of the Washington Consensus – international experts or local politicians – is purely academic.

More importantly, the Washington Consensus failed to recognize that transition trajectories are influenced by specific histories of each former communist country. I have demonstrated that in Bulgaria institutional patterns that were in place during late socialism played a positive role during the introduction of the country's market economy and some are now being replicated as a part of the country's accession to the European Union. The Washington Consensus did not take into account the variety of capitalisms existing in the real world. I have argued that some of those capitalisms, the European ones in particular, are closer to Bulgaria's late socialism than the ideal type composed by the Washington Consensus.

Most notably, three industrial policies started during late socialism have now re-emerged as a part of the European Union's program for economic development. Bulgarian late socialism saw the establishment of small entrepreneurs, the prioritization of an IT sector and infrastructure, and the relative autonomy of most economic agents. Although not identical, these policies parallel contemporary EU-inspired and EU-designed policies to stimulate small and medium enterprises, to foster knowledge-based industry, and to manage natural monopolies effectively. Once again, Bulgaria needs planners to draft the country's mid-term strategic direction in the form of seven-year plans to guide national institutions in the future. The ideology has changed – there is no more central planning – but the principles are very similar.

7.5 Summary and Implications

By employing incorporated comparison and sequential analysis, I have demonstrated that Bulgarian industrial policy-making has been shaped by a succession of multinational regimes. While competing among themselves, these regimes produced incomplete transformations of Bulgarian industrial policy. The resulting institutional instability was and still is a major issue in the country's policy-making because institutional reforms advanced slower and were more complex than the sudden political and economic changes favored by the Washington Consensus.

This study has confirmed that contemporary industrial policies result from international and national efforts. The nation state is thus no longer the source of strategic policy-making. In fact, there is a complex relationship between national and international industrial policy efforts. While international entities like the IMF or the EU outline the industrial policy frameworks, nation-states are responsible for applying those policies locally. In some cases (e.g. Bulgarian socialist "champions"), institutionalized policies and practices are resistant to change and tend to reproduce pre-existing patterns.

Rather than studying transition from socialism to capitalism as a self-contained period and topic, I have suggested that local contexts (national and regional) should be studied as much as common trends across different countries. I feel that the theoretical narrow-mindedness of the ideologues of the Washington Consensus precluded the institutions charged with the implementation of its ideas from being sensitive to differences between and within the former communist countries. When approaching transitions from one system to another (e.g. from socialism to capitalism) or between

different forms of one system (e.g. from libertarian to welfare capitalism), academics should thus keep an open mind and be theoretically flexible in order to provide advice that is relevant and applicable in specific contexts.

My call for a critical stance towards theoretical and methodological orthodoxies extends beyond the substantive area of this dissertation. Acts of social construction produce meta-power – institutionalized patterns that shape and limit future actions. By acknowledging this complex relationship between structure and agency, one would acknowledge that, unlike idealized models of capitalism or socialism, policies and practices allow overlaps between models and contradictions within models. Dialectical confrontations and negotiations between various agents occur within existing structures, but can also shape future structures.

8 Afterword: Limitations and Potential Extensions

In the end, I would like to reflect back on my research experience, the limitations that applied to it and the places this research could go in the future. Some limitations were self-imposed while others emerged during the course of my research. I start with the latter. Although I have made changes to the original research design, those changes were necessary and they improved the quality of my work.

Before I started analyzing the yearly budgets, my intention was to systematize and code their content in a way that would allow longitudinal comparison of changes in government allocation of resources. For instance, my assumption was that I would be able to compare R&D spending within and across the three periods similar to the comparisons from Table 5-4 and Table 6-1. Instead, I was presented with two major challenges. First, I found out that the yearly budgets from the 1980s were very broad summaries of relevant plans with only three main categories (Revenues, Expenses, Surplus/Deficit). Expenses, the category I was most interested in, included a handful of subcategories: (a) economic expenses; (b) educational, scientific, cultural, healthcare, and social security expenses; (c) administrative expenses.

Hence, the individual yearly budgets had a wide variety of public expenditures lumped together, which rendered those budgets almost useless. The yearly budget completion reports presented the same challenge. My inquiries revealed that before 1990 the strategic goals from the five-year national plans were broken down into specific targets and appropriations in the yearly national plans. The yearly plans, however, would have required a significant amount of resources to study. Furthermore, the yearly plans

could have proved very difficult to locate, as the Central Planning Committee had been disbanded in the early 1990s. At the same time, it is not clear how much value an analysis of the yearly plans would have added to the analysis of the overall strategic direction from the five-year plans.

The second major challenge came from the detailed yearly budgets from the 1990s and the 2000s. As Mr. Petrov (2008) remarked and my own analysis showed, categories and subcategories were constantly changing from one year to another during the 1990s. This presented a chief obstacle to my plan to compare individual expenditure categories from the budgets. Although the Ministry of Finance was adopting a unified budgetary structure for the whole country, that structure was not consistent across different fiscal years. As some of the charts in Chapter 5 demonstrate, limited comparisons are possible. However, I have had to redefine my use of the budgets as sources of data (i.e. numbers) and as texts that reflect policy processes.

Due to the breadth of the topic, I have had to impose some limitations on the project in order to keep it focused and make it feasible. I restricted the scope of the project by focusing on Bulgarian experiences. Although I try to bring country comparisons whenever necessary, my project is comparative only in the ways described in this study. I believe that incorporated comparison can be applied to other countries and has a lot of potential as long as there are social scientists interested in indigenous or hybrid epistemologies.

I have also imposed limitations on the areas of research within my incorporated comparison. I have left privatization as a supplement to my main research agenda.

Privatization is an industrial policy deserving a standalone project and I hope to start that project in the very near future. For similar reasons, I have also abstained from zooming in on corruption and illegal or half-legal practices. Moreover, corruption is a tricky research topic in that it offers very little verifiable information while carrying significant safety concerns along with it. Luckily, scholars like Leslie Holmes have been producing quality work on corruption in transitional countries. His latest piece *Rotten States?: Corruption, Post-Communism, and Neoliberalism* (Holmes, 2006) ties corruption to states' financial strength and the extent to which democratic reforms are implemented.

APPENDIX 1: Interview Consent Form (English)

UNIVERSITY OF MISSOURI-COLUMBIA
Doctoral Dissertation Research Participant Information and Consent Form

Title of the Dissertation: From Communist to Capitalist Industrial Policy

Advisor: Dr. J. Kenneth Benson (phone: +1-573-882-8331) (email: bensonjk@missouri.edu)

Graduate Student Investigator: Maksim Kokushkin (phone: +1-573-356-0145, +359-896-397-175) (email: mk2n8@mizzou.edu)

DESCRIPTION OF THE RESEARCH

Dear Sir/Madam,

You are invited to participate in a dissertation research study about the changes in economic policies of Bulgarian state that accompanied the transition from communism/socialism to capitalism. Understanding how policy-making has changed from one social order is crucial to unveiling the challenges that a transitional country had to face and is still facing in completing the process of transition.

You have been selected to participate because you have specific knowledge and expertise that will improve the quality of the project. Due to the position/s you occupy or have occupied, you have knowledge of the strategies, processes, and institutions, involved drafting, planning, or implementing, of economic/industrial policies in Bulgaria during the 1980s, 1990s, or 2000s.

This study will include public servants, public officials, and/or officials serving on international financial institutions (World Bank, International Monetary Fund, and European Union)

The research will be conducted in Sofia, Bulgaria, or in another relevant city, town, or village. Interview locations will include offices (the work location of the interviewee), public locations (restaurants, coffee shops, or others, if preferred by interviewee), or private homes (if preferred by interviewee).

Audio files will be made of your participation. The recordings will be used, transcribed, and/or translated by the student researcher Maksim Kokushkin.

WHAT WILL MY PARTICIPATION INVOLVE?

If you decide to participate in this research you will be asked to engage in a conversation about your involvement in the drafting, planning, or implementation of economic/industrial policies in Bulgaria during the 1980s, 1990s, or 2000s.

Your participation will last approximately 2 hours per session and will require 1 session with a potential for follow-up.

ARE THERE ANY RISKS TO ME?

The information you will be sharing results directly from your previous or current occupation. The specialized knowledge associated with your previous or current occupation could reveal your identity even if you the research does not use your name.

ARE THERE ANY BENEFITS TO ME?

You will be a part of a research providing a comparative institutional analysis of economic policy-making under different political, economic, and ideological orders. Hence you will contribute to a growing body of academic knowledge and potentially to future policy-making in Bulgaria and other post-communist countries.

HOW WILL MY CONFIDENTIALITY BE PROTECTED?

While there will probably be publications as a result of this study, your name will not be used. Only group characteristics (institution, position, etc.) will be published.

If you participate in this study, we would like to be able to quote you directly. If you agree to allow us to identify you in publications, please initial one of the statements at the bottom of this form.

WHOM SHOULD I CONTACT IF I HAVE QUESTIONS?

You may ask any questions about the research at any time. If you have questions about the research after you leave today you should contact the Advisor Dr. J. Kenneth Benson at +1-573-882-8331. You may also call the student researcher, Maksim Kokushkin at +1-573-356-0145 or +359-896-397-175.

If you are not satisfied with response of research team, have more questions, or want to talk with someone about your rights as a research participant, you should contact the Campus Institutional Review Board at: +1-573-882-9585, fax +1-573-884-0663, umcresearchcibr@missouri.edu

Your participation is completely voluntary. If you begin participation and change your mind you may end your participation at any time without penalty.

Your signature indicates that you have read this consent form, had an opportunity to ask any questions about your participation in this research and voluntarily consent to participate. You will receive a Bulgarian translation¹ (if required) and a copy of this form for your records.

Name of Participant (please print): _____

Signature

Date

_____ I give my permission to be quoted directly in publications using my name.

_____ I give my permission to be quoted directly in publications without using my name.

¹ The translation is as close as possible to the original text in English. Slight differences are possible and parts of the text might sound clumsy in Bulgarian, for which we apologize.

APPENDIX 2: Interview Consent Form (Bulgarian)

УНИВЕРСИТЕТ НА МИСУРИ-КОЛУМБИЯ Формуляр за участие в изследване за докторска дисертация

Заглавие на дисертацията: „От комунистическа към капиталистическа индустриална политика”

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ОПИСАНИЕ НА ИЗСЛЕДВАНЕТО

Уважаеми Господине/Госпожо,

Канам ви да участвате в дисертационен проект за изследване на промените в икономическата политика на българската държава, които съпътстват прехода от комунизъм/социализъм към капитализъм. Анализът на промените в механизмите на икономическата политика при прехода от един обществен ред към друг е важна стъпка в разкриването на перипетиите, които една страна в преход среща при извършването на този преход.

Избрахме ви да участвате в проекта заради експертните ви познания, които ще подобрят качеството на изследването. Благодарение на поста или постове, които сте заемали, вие имате информация за стратегиите, процесите и институциите, свързани с проектирането, планирането и прилагането на икономическата и промишлената политика на България през 80-те години, 90-те години и след 2000 г.

В проекта ще участват български държавни служители и/или служители на международни институции (Световна банка, Международен валутен фонд и Европейски съюз).

Изследването ще бъде проведено в София или в друго подходящо населено място. Конкретните помещения на провеждане на интервюта ще включват офиси (работно място на интервюирувания), обществени места (ресторант, кафене или друго предпочитано от интервюирувания) или частни жилища (по желание на интервюирувания).

Участието ви ще бъде записано и съхранено на аудио файл/ове. Записите ще бъдат използвани, транскрибирани и/или преведени от докторанта Максим Кокушкин.

КАКВО ЩЕ ВКЛЮЧВА УЧАСТИЕТО МИ?

Ако решите да участвате в това изследване, с вас ще бъде проведен разговор за участието ви в проектирането, планирането или прилагането на икономическата и промишлената политика на България през 80-те години, 90-те години и след 2000 г.

Участието ви ще продължи около 2 часа с възможност за последващи допълнителни въпроси в бъдеще.

СЪЩЕСТВУВА ЛИ НИКАКЪВ РИСК ЗА МЕН?

Заеманият от вас пост (понастоящем или в миналото) е в пряка връзка с информацията, която ще споделите в рамките на този проект. Дори името ви да не бъде използвано, съществува вероятност да бъдете идентифициран по конкретните познания и информация, свързани със заемания от вас пост.

СЪЩЕСТВУВАТ ЛИ НИКАКВИ ПОЛЗИ ЗА МЕН?

Ще бъдете част от проект, който ще анализира в сравнителен институционален план създаването на икономическа политика в рамките на определен политически, икономически и идеологически ред. Участието ви ще допринесе към нарастващата специализирана научна литература по темата и евентуално към икономическа политика на България и други бивши комунистически страни в бъдеще.

КАК ЩЕ БЪДЕ ЗАЩИТЕНА КОНФИДЕНЦИАЛНОСТТА МИ?

По всяка вероятност проектът ще бъде публикуван (частично или в цялост), но по принцип името ви няма да бъде споменато. В публикациите ще бъдат посочени единствено общи характеристики (институция, заеман пост, и т.н).

Ако участвате в изследването, бихме желали да ви цитираме пряко. В случай че се съгласите да ви идентифицираме в публикации, моля поставете инициалите си пред едно от заявленията в края на този документ.

С КОГО ДА СЕ СВЪРЖА, АКО ИМАМ ВЪПРОСИ?

По всяко време можете да задавате въпроси свързани с проекта. Ако у вас възникнат въпроси след като докторантът се раздели с вас днес, можете да се свържете с научния ръководител Д-р Дж. Кенет Бенсон на телефон +1-573-882-8331. Можете да се обадите и на докторанта на телефони +359-896-397-175 или +1-573-356-0145.

В случай че изследователският екип отговори незадоволително на въпросите ви, имате други въпроси или искате да говорите с някого за правата ви на участник в изследване, можете да се свържете с Университетския научен надзорен отдел (Campus Institutional Review Board) на телефон +1-573-882-9585, факс +1-573-884-0663 или имейл umcresearchcirb@missouri.edu.

Участието ви е напълно доброволно. Ако се съгласите да участвате и промените мнението си, можете да прекратите участието си по всяко време и без никакви отрицателни последствия.

Подписът ви удостоверява, че сте се запознали с този документ, имали сте възможност да зададете въпроси за участието си в този проект и доброволно сте се съгласили да участвате. По ваше желание можете да получите превод на този документ на български¹ и екземпляр за личния ви архив.

Име на участника (с печатни букви): _____

Подпис

Дата

Разрешавам да ме цитирате пряко в публикации, *като използвате името ми.*

Разрешавам да ме цитирате пряко в публикации, *без да използвате името ми.*

¹ Преводът е максимално близък до оригиналния текст на английски език. Възможни са минимални разлики и части от българския текст може да звучат тромаво, за което се извиняваме.

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