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# Privatisation versus Capital Market. The Corporate Governance Case of Bulgaria

## The Concept of the Ownership in the Late 'Socialist Economics'

by Plamen Tchipev<sup>1</sup>

### Abstract

The ownership has a very controversial place in the economics' history. While it was placed in the centre of the so called "socialist political economy", (actually, the issue of its abolishment), it is still taken for granted in the orthodox economics and little attention is paid on its analysis. Contrary, the institutional economics shows all increasing interest in this par excellence 'institutionalist' economic concept - two out of ten chapters are directly devoted to the ownership in the recent E. Furobotn and R. Richter's book - 'Institutions and Economic Theory' (1997).

Within the latter discourse it seems important and interesting to analyse the development of that concept in 'the economics of the socialism' - from the state, unique, single ownership through various degrees of 'relative autonomy of the state companies' and to the eventual triad of 'ownership, possession and management'. A theoretic development forced by practical economic problems - a clear case of '*a cumulative and evolutionary process unfolding in historical time*', which never went that far to recognise its true purpose - to assign the role of the private property to a ideologically acceptable substitute institution. The paper tends to analyse that particular version of the ownership not only in its historical development and within the context of its 'natural' system of economic views like the 'socialist monetary relations', but also tries to draw a certain parallels to some of the contributions of the modern institutional economics like principal-agency approach. The paper also strives to outline some of the political consequences of its implementation. The main conclusion relates not as much to the unavoidability of the private property as basis for any economic system, but rather seeks to provide another piece of evidence for the importance of the institutional arrangement, and especially the ownership, for the functioning of any economic system.

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Studying the reasons for the break-down of the socialism as a political and economic system is an interesting and revealing problem, which may be helpful for giving us a better understanding about the fundamentals an economic system is built upon. However, the interest in that matter is concentrated mainly in the economic inefficiency, the lack of political freedom, the exhausted resources in the military contest with the West, the technological gap etc., a circle of more or less functional problems; and not enough attention is paid on the institutional problems which socialist system encountered. Understandingly, this approach is consistent with the large spread neglect to the institutions revealed by the main stream economics.

Maybe less visible than the bad functioning socialist enterprises, but not less damaging, the institutional controversy of the socialist economic system created unavoidable problems virtually at the every stage of its development. In the centre of this controversy, it laid down the dogma for the all-people socialist ownership - an institution, which was brought to life to crowd out and overcome the 'exploitator's forms of the ownership and first of all - the capitalist one. As soon as the dogma become reality its implementators started facing various problems - first practical and later theoretical.

### **1.1. Dogma**

Marxian labour theory drove his author to the point of rejection the capitalist ownership and even of the private ownership in general in a search of a society of an equal welfare for everybody. The reasoning is not much complicated - private appropriation of the labour results creates exploitation of one part of the society by another one. That contradicts the highly socialised character of the modern production, a process involving complex participation of great masses of people. In the focus of this contradiction is the institute of the private property and its simple resolution is the abolishment of the private property, or rather, its 'socialising' making it available to the whole society.

Of course, that interpretation is oversimplified, but on my opinion it represents correctly the origins of the concept for the 'all-people', 'most-socialised', single socialist, etc. ownership, which became the corner stone of the so called socialist political economy, or as I shortly refer here to it - *the 'socialist economics'*. From this very principle later was developed a great number of 'socialist economic categories, laws, principles, practical approaches and mechanisms'. More or less all they were derivative, and secondary, which gave them even a slight, but chance to

develop; some economic laws were told to be referring to the first, 'low', stage of the socialism and some - to the second, 'higher', one.

The concept of the single socialised ownership obtains a sacred status, i.e. it gets dogmatised. More precisely, the dogma is not the all-people ownership itself, but rather the unacceptability and incompatibility of the private property with the socialism. In fact socialist economics offered a lot of discussions and 'developments' about the forms of manifestation, 'totality' and 'maturity' of the single property; what is not to be questioned is the denial of the right of existence of the private property, and especially that one exercised over the production means.

With few exceptions, almost everything is supposed to belong to the People, the ultimate sovereign: all production means, the land, the natural resources etc. In the few cases when some "privacy" is undeniable e.g. over the personal belongings, cars, homes (the last two not in every socialist country) - it is being refereed as to "personal", but not private property and could not be used in any economic way, i.e. productively, by their owners.

The only economic exception is done for the collective or so-called co-operative property which has been tolerated in the agriculture, though not equally in all the countries. Actually, even where it was widely applied it has not any specific economic significance, since its principal - the collective - could not sell the land, liquidate or change the production i.e. the collective property had no more (and no different) 'owners' then the all-people property.

The abolishment of the so-called commodity-monetary relations<sup>3</sup> was not so successful in obtaining the sacred or dogmatic status. Again this principle is rooted in Marx writings, the products need to become commodities, and hence to emerge money, because the societal production process is broken into myriad of private processes along the private ownership over the production means used in those processes.

The logic behind that is, that being privately produced the products need a socialising assessment, the latter is possible through a monetary evaluation of their commodity form. Once the society abolishes the private property, the products of everybody become directly socialised

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<sup>3</sup> The English terms referring to the socialist economics categories are those offered by *A Dictionary of Political Economy*, an official issue of the Progress Publishers, Moscow, 1985, and seldom meet the modern economics terms, but they keep the original ideological meaning, which is necessary for the correct historical understanding of the analyzed system of economic thought.

and do not need the commodity-monetary form for its recognition. Shortly, the socialist society requires abolishment of the money too.

It is well known, that this point was not dogmatised as it is, or more precisely, what was dogmatised was that the commodity-monetary relations will be preserved under the socialist system, though temporary and with serious qualifications. Qualifications addressed to the limited field of application, specific way of manifestation within the socialist economy, its subordinating under the ultimate rule of the plan etc. Nevertheless it played not small role in the "system" problems of the socialism.

## **1.2. Dogma Confronts the Reality**

As mentioned, both pillars in the socialist economics dogma originated in Marx. As a matter of fact he concentrated on the critiques of the existent society and outlined very scarcely what was supposed to be the following 'socialist' society. This became apparent soon after the revolution in Russia when the capitalist ownership was destroyed (not seldom even physically) and the problem of how to get out from the anarchy emerged. The "Red-Army attack on the capital", according to Lenin terminology "expropriating landlords and bourgeoisie ... is accepted as a beginning of the restriction and 'overcoming' of the money in Russia", World history, (1990, Vol. 4, p.36). The process achieves full scale during the time of the War-Communism; confiscation of the agricultural products, their direct distribution, para-military organisation of labour are among the features of that economic policy.<sup>4</sup> Its logical result in almost full destruction of the trade, drastic fall in the production, famine in the rural areas, shrinking of the population etc. is the major 'visible hand' changing first the practice and then the theory of socialist economy about the role of the money.

The New Economic Policy (NEP) proclaimed in 1920's recognises, among the other things, the unavoidability of the monetary connection in the socialist economy, at least for a period; trade, banks, even private initiative become important elements of this policy. However, this is always seen as a practical, temporary solution and nothing else: "Commodity-monetary relations,

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<sup>4</sup> It is important to note that it is not just a wrong practice, led under war pressure by Lenin, but a process finding ideological and theoretical support in the writings of the whole Soviet leadership of that time; N. Bukharin, J. Larin, V. Smirnov, Osinskij etc., are among the famous ones, World history, 1990 vol. 4. p. 45, and which is eventually fixed in the RCParty Program from 1919.

capitalist economic forms are *just means* for achieving of certain goals" World history (1990, vol. 4 p. 75) (*mine italics P.T.*). The irony here is that the goals are development of the production and raising the living standard, but this is a different story.

Recognition of the unavoidability of the money lays down the starting point of the most serious contradiction of the socialist societies. It emerges as a practical solution, which immediately confronts with the theoretical dogma creating subsequently contradictions in the theory itself. This clash could be traced over the whole history of all socialist societies and one can say that the latter is a history of the attempts to solve this problem. Although, the true nature of this contradiction is not in the theory. In fact, the theory at least as presented in Marx correctly predicts that destruction of the private property needs abolishment of the money as well. The problem is an ontological one and may be described as an institutional incompatibility - destroying from the one hand, the institute of the private property is destroying of the discrete organisation of the production. If all the production processes in an economy have a single (ultimate) owner there is only one residual claimant, i.e. only one profit centre in the whole economy. From the other hand, allowing (and requiring) each production process to be measured by the prices of its commodities, by its efficiency, or to say this in other words, to have the expenditures complied with the income, all that needs autonomous, economically discrete production process and hence multiple residual claimants and profit-centres.

Presented here dilemma may seem someone not real or unimportant, but this perceptions are false. Bellow, where are shown the practical problems created by this contradiction it is mentioned how far sometimes they were going causing even ideological threats for the ruling nomenklatura.

Given this dilemma, the socialist theory has a complicated problem, which needs for its resolving a serious re-examination of the original assumptions. Refusing to recognise the latter, theory loses its explanative power and becomes dogma. This actually is the case with socialist economics. It failed to rethink its postulates, thus masking the real nature of the ontological problems, creating sophistic theoretical problems and fake solutions.

However, this very process of fruitless search is interesting and seems instructive when the orthodox economics has being revised from a non-orthodox economic point of view.

### **1.3. Practical Dimensions of the Problem and the Attempts for its Resolvment**

Practically the problem manifests itself through the extent and forms of the control over the economic agents. When the monetary relations are restricted beyond of a certain point the economic incentives get so weakened that this threatens the very functioning of the system. When they are released as a necessary reactive measure, the economic incentives allow the local economic agents to sneak out of the grip of the centralised control of the bureaucrats playing the role of the principals of the all-people ownership. Then follows another tightening of the policy and so on.

That model might be seen functioning in most clear way after launching the NEP. It gives a strong chance to the capitalist economic forms and the elite soon realises that through releasing, even partially, the monetary relations they lose the economic control. "... (NEP) led to the re-birth of the capitalist tendencies, activating the old one and emerging of a new bourgeoisie in both the cities and villages", World history, (1990, vol.4 p.76).

Perhaps the lack of experience how to deal with this problem allowed the private initiative to go so far away under the NEP, and may be this made the followed reaction so sharp. Stalin's repression not only to the capitalists, but also to the peasants are striking examples of that reaction. Those are the times of the most direct control over the industry, of the most restricted monetary relations, i.e. of the most need of non-economic pressure over the economic agents in order to make them complying with the central plan. Perhaps, the WWII is responsible for being this period of rigid restrictions so long; maybe the reasons are more perplex.

Either way, at the beginning of 60's, it follows another period of slight liberalisation of the economic life. Thereafter, the paper focuses on the Bulgarian experience, but the historical turns in all major European socialist countries are generally the same.

Without much theoretical trouble, after taking some party decision in the 60's begins an experiment providing the socialist enterprises with relatively large rights for economic action. They are required to produce taking care about the expenditures and are allowed to strive for profit and to keep part of it, a certain number of competencies for taking economic decisions, which are not confined just to the operative management are assigned to units' directors,. In Bulgaria this process goes that far that one of the companies grows quickly, diversifies its commercial activities strongly and with its aggressive and free policy effectively resembles a western type corporation. The reaction coincides with the Czechoslovakian intervention, which

disguises to some extent its economical nature. However, its severity in punishing involved persons indicates on its real reason.

This time, the attempt to restrict the economic freedom of the units and thus the role of the money and value is not so rigid and comprehensive. In fact, during the 70's efforts are made to push higher the profit-centre - from the single enterprises or companies to the kind of conglomerate formations, called sometimes associations, corporations, productive complexes, trusts (in Soviet unions) or combines in GDR. Sometimes they approached in size the whole industries, e.g. National Transport Complex in Bulgaria; this is the time when Bulgarian company Balkancar acquires larger size and capital than General Motors..

The reasoning for this experiments seems again quite simple. At that time, it is apparent that the direct management based just on the figures set in the central plan and the complete ignorance of the price mechanism is already impossible; there are also some attempts even for theoretical explanation of those practices. Since, softening of the control over the companies is also unacceptable, at least after certain line, the correct decision seems allowing larger freedom for the commodity-monetary relations at such a high hierarchy level, which makes the number of the real profit-centres so few, that a direct party control over their managers likes possible.

Not-surprisingly, this policy fails again - simply the objective economically determined profit-centre is much lower in the hierarchic structure and the economic units, which are supposed to play this role need much more larger circle of rights to perform it successfully.

What follows is the most serious attempt to find a way to allow the economic efficiency working at the company level preserving at the same time the all-people ownership dogma, i.e. preserving the right for the government to determine what is produced, who produce it, how to distribute it, what to be the norm of the profit, how it to be allocated etc. In the first half of the 80's again with a party decision in Bulgaria started the development of so-called "new economic approach and mechanism for governance of the national economy." At that time there was serious accumulation of experience in Yugoslavia on the workers self-management, and several attempts for different theoretical reasoning for those practical attempts.

The process started again with giving more freedom to the companies, and after a point it included also creation of diversified banking system, introducing legal forms for the economic agents analogous or resembling those in the market economies. The process had never been

finished or to be more precise found its eventual form in the real market forms after the political break-down of the socialist system. The analysis of this process is interesting itself and into it could be found a lot of instructive points, concerning the economic consequences in the transitional period; particularly it might shed some light on the transfer of political into economic power of the governing elite in those countries etc., but this is aside from our analysis here.

It is interesting that at a certain stage this process included proclaiming of the company's employees, including management or as they called this subject the labour collective, for the 'stopanin' of the company's property. The term has not any particular scientific meaning, which by the way makes very difficult finding English analogue, perhaps 'possessor' might be used with a number of qualifications of course. The idea behind is to distinguish and to oppose that circle of economic rights which is associated with it to the rights usually associated with the common meaning of the ownership. Of course, that type of definition of those rights is in direction of their limitation and scaling down the usual ownership rights. At this point is necessary to track the historical development of the theoretical views about the socialist ownership.

#### **1.4. Theoretical Aspect of the Institutional Contradiction**

As mentioned, the original belief was that in a society without private ownership there is no room for monetary form of the connection between the separate units of production. They are supposed to have a system directly regulated by the central planning. When it appeared impossible and money become tolerated though never really accepted, the autonomy which they bring to the economic agents become a major issue of the socialist economics. As revealed above the practice never hesitated to try and find different solutions, i.e. to grant more or less space for economic decisions to the enterprises or companies. Although, the less efficient were those attempts the most needed become some theoretical background for those experiments.

#### **Khozaschet**

This concept never got a single meaning; it was changing all the time according to the changes in the economic views of the governing elite. Although there is a set of features generally associated with it. And they are very different from its original meaning.

Originally the concept is launched in Lenin's works. There it bears the willingness to overcome the economic crises at any price and its definition comes from the opposite - to make the socialist companies working as capitalist, though keeping their social nature. "The state enterprises have to transfer to so-called *khozraschet*, i.e. in essence, to a great extent on commercial and capitalist principles" Lenin, (1962-5, vol. 44, p. 342). According to that the concept is associated mostly with control and accountability of the political power over the managers of the enterprises in order to ensure they comply with the directives. Hence, the economic rights assigned to the production units at the first stage have not detailed specific meaning. Permitted is everything which is not forbidden and the monetary relations are free to develop as much as they can.

It is much later, during the second wave of 60's when the concept is elaborated further. By this time it is clear that there is a specific functions and rights which must be assigned to the company if it is to take use of the monetary relations. According to different authors it should include '1) autonomy of the socialist enterprise, managerial and operational, 2) material incentive and responsibility, 3) monetary control, Dictionary, (1985, p.69). Others are more specific - '*khozraschet*' includes self-payment and self-financing, i.e. the company is supposed to have such a pricing of its products that to be able to pay the expenditure and even to get some profit for financing its development and enlargement, Abalkin, (1971).

At the same time it is emphasised that the autonomy is 'accepted', Koslov, (1985. p.514), that the company has an immediate goal - profit, and a final goal - satisfying the needs of the people; the latter goal, of course higher than the former, Arroyo, (1985). If this is to be read correct - the company is allowed to make profit as long as it is approved by the plan, if the plan sets the prices of its products lower than necessary, the company shall take those prices and work on lost; the plan will take care for it at the next stage.

Of course those economic functions of the company are accepted by some and opposed by others. Sometimes profit is allowed partially, sometimes it is excluded completely depending on the views how deep and how far should the company's autonomy go.

The problems with such a 'theory' are obvious - it is very often arbitrary, and follows the turns of the policy. Having this obstacles during the next period of softening of the economic conditions the theory made attempt for another approach.

### **The duality ownership-possession**

Somewhere in the 80's a group of scholars, mainly Bulgarian, tried another approach for resolving the contradiction between the all-people ownership over the economic units and the need for their independence caused by the monetary form of their production process. Disappointed from the impossibility to outline correctly and definitely the circle of economic rights inherent to the socialist enterprises they tried to revise the ownership dogma. Of course, not directly and of course not generally; just what is needed to make the system working, without going away of the socialist paradigm.

The idea is, while keeping untouched the dogmatic principle that all producing assets should stay in the domain of the state, i.e. of the party and governmental bureaucrats, to identify a set of rights inherent to the economic units by their very nature. This way it will provide for assignment those rights once and forever to the companies and will place the latter out of the subjective interfering of the political power. Essentially, this was an attempt to keep for the owner just the ultimate right for strategic decisions and to entrust all the other functions to the management.

One may note that behind that idea hides the old Romanic principle of decomposing the ownership to three groups - use of the object (*ius utendi*), use of its fruits (*ius fruendi*) and power of the alienation (*ius abutendi*). And especially one principle, which might be described best the following way "According to the Romanic concept of the ownership, a person can give away some of his rights without giving up legal ownership...", Furobotn and Richter (1997, p. 79).

However, there is a serious difference in this analogy. It is applied for a right of a private ownership when the socialist economics had to deal with a single subject of the ownership - this way the alienation right is simply unthinkable within this system. This way the real analogue is rooted in the systems with such type of all-mighty sovereigns - the feudalism. According to common view the land is owned ultimately by the king, which makes parts of it available to his tenants, granting them just possession over a certain pitch of the land.

Another source of this idea could be found in Marx who analysing the early forms of primitive common ownership concludes that when the whole society is the only owner, the separate

commune is just possessor and a person on his turn possesses just if he is a member of the commune and vice versa by becoming such a member he obtains the right of possession, Marx, (1975-8, vol.46, p. 404).

Within this framework the late socialist economics postulated the concept about *the owner and the stopanin*; a term which as mentioned could widely be translated as a possessor, Arroyo (1986). This way the socialist ownership exist just as an ultimate right of the state, the separate enterprises function like possessors of the production means and the labour collective is a social subject of this possession. Here, an inconsistency could be found who actually is the subject of the possession the collective or the company itself. The reason is that this problem was not resolved. Announcing the labour collective, which includes not only workers but managers as well means to introduce one to one the Yugoslav model, which though practically successful was ideologically unacceptable at that time in most of the European socialist countries.

From the other hand the enterprise within the socialist economy hardly could have independent status to be able to be an active economic subject. Indeed, to proclaim them as possessors does not mean anything different from saying that they should work on *khozraschet*, thus closing the circle. The time did not allow to see the actual resolution of this inconsistency, but undoubtedly it would be in the favour of the collective. In fact, in Bulgaria a number of laws were changed and the process of entrusting the rights of possessors to the various collectives had begun.

What is important here is that at certain level of development of the contradiction, more or less openly was recognised that the dogma of the single, unseparable, all-people etc. socialist ownership could not remain unchanged since it contradicts severely the functioning of the modern economic system, whose complex and diversified character needs monetary form for realisation of the connections between its structural economic units. I am tempted to see this eventual development like a break-down of the science against the dogma, but it is much more likely that it was a self-guarding act done under the pressure of the practice.

## **Conclusion**

This long lasting internal conflict within the socialist systems shows clearly that there is an important connection between the private property and the price mechanism, to use the modern

economic terms. Simply said, it is a proof that the institutions matter not just because they impose transaction costs of the economic agents, but because without of them, i.e. without the structural organisation based on the autonomous character of its elements, the price mechanism could not work. That is to say that the demand and supply could determine the prices ensuring this way functioning of the whole system, but also that they could do it because the production is structured in countless different companies separated by the boundaries of the private property.

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