

Inequalities and political populism: The case of Bulgaria

Abstract

The article evaluates and analyses the dynamics of inequalities in Bulgaria during 2010-2020 as quantified by a set of particular indicators including the Gini coefficient, the S80/S20 indicator and the share of income held by the richest five per cent. The article examines the relationship between these inequalities and the growth of a certain type of political rhetoric which the literature clearly categorises as populism and which has been rising in central and eastern Europe as in other places elsewhere. In addition, the most up-to-date theoretical literature on these issues is studied and summarised. Social and macroeconomic shocks evidently affect the development of inequalities and, with the global Covid-19 pandemic, we are in the middle of one such set of shocks. The article concludes that a broad public and expert debate is overdue on the problems of inequalities and the consequences of their growth – namely: the development of populist rhetoric – and that reforms are required to reduce inequalities to within parameters that are more socially acceptable as a means of reducing the incidence of populism.

Keywords: *inequalities, populism, Gini coefficient, economic shock, Covid-19*

Introduction

The Covid-19 crisis will pose many challenges to modern societies in economic, social, political and demographic terms. A significant part of the world's economies continue to be concentrated on overcoming the medical dimensions of this crisis. Undoubtedly this is the right approach, but the purpose of this article is to focus on the post-crisis period in which the projections of the macroeconomic and social aspects of what our economies and societies are experiencing will become tangible.

One of the changes forthcoming in the near future will be greater socio-economic inequalities than we have seen so far. This will, in turn, lead to an increasing level of populism in our political rhetoric. The world is anyway experiencing a serious problem with inequality but, instead of trying to resolve it over the years, we have deepened it. This has led to populism becoming more and more a part of everyday political speech. This trend is valid for all EU member states, although this article examines the dynamics of inequalities in Bulgaria over the last decade. A number of economists have already predicted an impending rise in inequalities as a result of social shifts in post-crisis societies.

Therefore, the topic is relevant and the dynamic situation in which the world finds itself suggests an increased interest in the quantitative study of inequalities. Economists have ignored this topic for many years but the direction of the theoretical

literature has reversed in the last decade. It is no coincidence that Nobel Prizes in Economics are increasingly being awarded for research into poverty, inequality, social exclusion, populism and the role of the state as a major driver of human capital development.

Social and macroeconomic shocks evidently affect the development of inequalities. We are currently in such a state of shock. As a result, political support for populism around the world is growing, including in Europe. In recent years, more and more economists, sociologists and political scientists have begun to turn their attention to populist rhetoric as a means of gaining the trust of voters.

First, certain trends such as trade liberalisation have been highlighted as the engine of populism in one of the most recent studies on the subject (Rodrick 2017). Second, crises also affect the likelihood of increased support for populism (Moffit 2015; Stankov 2019). Dornbusch and Edwards (1991) also note that the depth of recessions and the subsequent increase in income inequality is at the centre of rising populist attitudes. Meanwhile, Kaufman and Stollings (1991) argue that persistent income inequality, coupled with insufficient growth or even economic depression, is at the root of social discontent, leading to the election of populists to power. To reach these conclusions, the above researchers review a number of individual episodes in the political and economic history of populism.

The current situation is no different, as it presupposes the development of greater inequalities among the incomes and wealth of the population of individual countries, and hence progressively more staggering in far-left or far-right political rhetoric. Mathematically, to be among the top five richest people in the world today, one must have saved \$50,000 a day for the last 5,000 years (from the construction of the pyramids in Egypt up to now); while the richest 1 per cent of the world's population has more than twice as much wealth as 6.9 billion people (85 per cent of the global population) (Oxfam 2020). This type of process of the increasing concentration of capital resources in the hands of fewer and fewer people leads to the spread of populism around the world, not just in far-left or far-right rhetoric but also as a form of social behaviour.

The contemporary influence of populism in Europe (including in Bulgaria) is probably unprecedented, at least not after World War II. The depth of the 2007/09 recession has created large masses of workers losing their jobs or otherwise experiencing significant reductions in their own incomes and consumption patterns in the post-recession period.

On the other hand, governments have sought to combat these trends in private income and consumption by compensating with higher public spending. However, unlike previous recessions, the fiscal position of countries in Europe, Latin America and the United States is currently more unfavourable. Unlike previous recessions, governments are facing the need to cut spending just when voters need it most, due to high levels of government debt. As a result, voters feel abandoned by the hitherto dominant parties and seek support for their problems elsewhere. The situation in Bulgaria is similar, not so much in terms of debt, but in terms of the declining redistributive role of the state budget as a share of the country's GDP.

One opinion survey found that populist parties have increased their support from voters across the EU several times over in the past two decades, setting new realities

for the established political order across the continent (Baker 2019). For example, twenty years ago, populist parties were a marginal element of politics, estimated at approximately 7 per cent of the vote in the EU, or 12.5 million Europeans, in 1998. By 2018, this support was estimated at 170.2 million Europeans, an increase of approximately 13 times.

According to a Freedom House report (2019), populist rhetoric is also on the rise in central and eastern Europe. For the second consecutive year, so-called ‘consolidated authoritarian regimes’ are superior in number to ‘consolidated democracies’. The list of consolidated authoritative regimes includes Azerbaijan, Belarus, Kazakhstan, Russia, Tajikistan, Turkmenistan and Uzbekistan. The problem is not limited to the former Soviet Union: declines in the assessment of the level of democracy are also reported for several EU member states (e.g. Poland and Hungary).

Ultimately, there must be a specific reason for the development of so much political populism across EU member states. The most logical answer would be the growth of inequalities within societies and the poor and uneven distribution of additionally generated added value. This is the exact opposite of Goal 10.1 of the UN’s Sustainable Development Goals, which states that states must:

By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average. (UN Development Goal 10.1)

The intention is specifically to reduce inequalities and ensure that no-one is left behind. These, at least, are the theoretical preconditions prior to the Covid-19 crisis, which is having an impact across the globe and which, as the UN also points out, is deepening existing inequalities and hitting the poorest and most vulnerable communities the hardest, as we explore in the next section.

In political science, populism is defined as a ‘special style of political communication’ that seeks to reach as close as possible to ordinary people but which, at the same time, opposes system parties by seeking to exclude certain segments of the population from the notion of an ideal society. The economic approach to populism is more technocratic. Economists define populism as a specific set of political priorities that focus on growth and income redistribution, without taking into account the risks of inflation and deficit financing.

An inevitable consequence of populism, however, wherever it has manifested itself, is a reduction in the well-being of the voters who initially supported it.

Impact of Covid-19 on the fight against inequality

This virus presents clear dangers to everyone in terms of their immediate health as well as their longer-term health. However, there are clear implications for particular groups who are most at risk and, in particular, for the continuing fight against a range of inequalities.

In the first place, people who are most at risk are those in the lowest decile (10 per cent) and the lower quintile (20 per cent) of the income distribution. The poorest 20 per cent in any society face much greater dangers than the richest 20 per cent not only in the sense of medical risks, such as the likelihood of infection and, following

on, the likelihood of complications and death, but there are also purely economic risks for this section of the population in becoming much poorer than they were before the crisis. For example, over 70 per cent of hospitalised patients worldwide belong to the lowest three deciles in the income distribution. The reasons are many, but we can not ignore that poorer people are unable to take full care of their health and that they often suffer many concomitant diseases which puts them at much greater risk compared to people in the highest deciles of the income distribution.

Secondly, according to Oxfam (2020), about 500 million people could be pushed into extreme poverty as a result of the pandemic. These are people who have, so far, been counted among either the second or the third quintiles in terms of income (the so-called 'middle class'). This represents between 6 and 8 per cent of the global population which will be forced into this situation as early as 2021 as a result of the slowdown of entire economies as a result of governments seeking to control the spread of the virus. The implications of this process will potentially slow down the fight against poverty and inequality for ten years across the globe as a whole while, in some parts of the world (Africa and the middle east), such a slowdown is estimated to have consequences in this way of at least thirty years (Oxfam, 2020). Depending on income, and whether or not their economic sector is shut down, workers are exposed to different risks. There will be many who will have to choose between exposing themselves to greater risk by not giving up their wages, or isolating themselves and, as a result, becoming notably poorer.

Thirdly, we can add to the numbers facing threats as a result of this phenomenon the ILO's initial estimate (2020) that at least 25 million jobs will be lost and will not be restored after the end of the pandemic. This, in turn, will result in a loss of household income worldwide of more than \$3.4tr, a number that is increasing week by week. Most international organisations, such as the World Bank and the International Monetary Fund, argue that the world is heading for a recession whose scale will be larger than the global financial and economic crisis of 2008. For example, according to McKinsey (2020: slide 6), the US economy is in line, under the extreme scenario, to suffer losses equivalent in scale to anything since the end of the Second World War II.

Finally, the pandemic also threatens to increase gender inequalities. For example, about 70 per cent of the world's healthcare workers – i.e. those most exposed to the virus – are women (Oxfam 2020). In poor countries, more than 92 per cent of working women are employed in the informal economy with neither health nor social insurance, which does not guarantee them the right to assistance in the current situation. In addition, reports also show that domestic violence has doubled in provinces of China where restrictions were imposed (Sacco 2020) – and this pattern is repeated in almost every country in the world (especially in South America, Turkey and the middle east).

Ultimately, the majority of people will prefer to safeguard their health, which represents evidently rational behaviour, but this will lead to their falling into a lower decile or quintile in the income pyramid of any society. Graphically, this would mean that the curve would have a pronounced left asymmetry, with more and more people falling into the category that is below the middle class. In addition, lower-income households traditionally have poorer financial buffers and less capacity to borrow or

save, which is likely further to complicate matters in the long-run. These people usually rely entirely on their income, as accumulated wealth is either missing or too little. This may well start to happen by the end of 2020, and certainly so in 2021, because some of the negative effects have a wider impact lag with this falling due in 2021. Some of this will depend on government efforts to support people in continued employment, although these are clearly not universal and, even where they are in place, are likely to be time-limited.

Descriptive analysis: The case of Bulgaria

Everything that has been presented in this article so far about the development of inequalities and populism is largely valid for Bulgaria. There are a number of continuing destructive social polarisation processes going on among the Bulgarian population, despite a decade in which the economic environment more widely has been generally quite favourable. These processes have sharply intensified in the period following the economic crisis, i.e. after the second quarter of 2009, as data from the Bulgarian National Statistical Institute testifies. The main reason for these increasing imbalances is the state not having an active role in the economy on top of an inefficient tax system; in combination, this has generated additional inequalities instead of eliminating them.

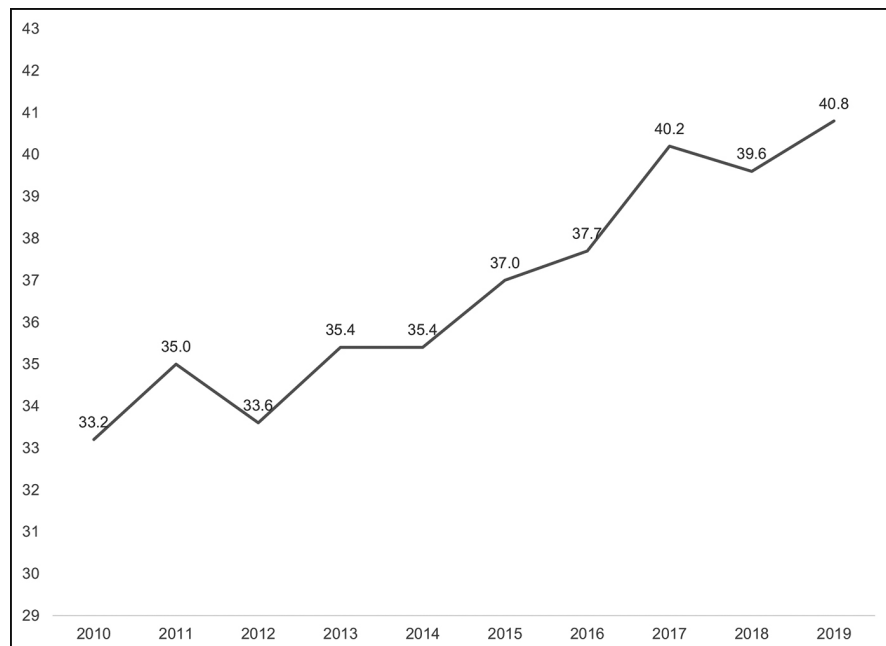
Consequently, inequalities in Bulgaria have become a topic not only of the past few years but are, unfortunately, also the topic of the decade. Statistically, there is a real danger that the next two generations of Bulgarians will live in conditions of very low or even zero economic growth. The social consequences of the unfair distribution of generated added value are unlikely to be overcome for many years.

As in other European economies, the acceleration in the already growing inequalities had its beginning in the period after the global financial and economic crisis of 2007/09. During this period, a flat-rate (10 per cent) system of taxation was introduced in Bulgaria which many believe has contributed to the development of these destructive processes in society. To some extent, the source of the problems can also be found in the incorrect state economic policy of conservatism and a refusal to engage in expansive fiscal behaviour. Due to the fear of inflation or other reasons, current economic policy is not leading to the reduction of inequalities in Bulgaria. Even so, both Paul Krugman (2009) and Joseph Stiglitz (2012) have shown that reducing inequalities is effective in terms of boosting economic growth, something which is also confirmed by the IMF from various staff discussion notes (e.g. Ostry *et al.* 2018), while Thomas Piketty (2014) came to similar conclusions. What is valuable as regards Piketty is that, despite certain philosophical prejudices, he emphasises the importance of empirical data and this makes his analysis practically indisputable as regards modern times.

The past ideological struggle between communism and capitalism has sterilised rather than stimulated positive scientific research and economic science in general on issues connected with inequality. A similar fear, with similar deleterious effects, may be observed in political rhetoric, which leads to a declining degree of connection between legislative proposals and their empirical evaluation in scientific and expert circles.

Nevertheless, one of the most famous and world-renowned measures of inequality as regards individual households is the Gini coefficient. The latest Eurostat data show that, at the end of 2019, the value of the Gini coefficient for Bulgaria stood at 40.8, which is a value higher than the country has ever reported before (the only other year when it surpassed the 40.0 barrier was 2017). The recent dynamics in the Gini indicator are presented in Chart 1.

Chart 1 – Gini coefficient in Bulgaria (2010-2019)



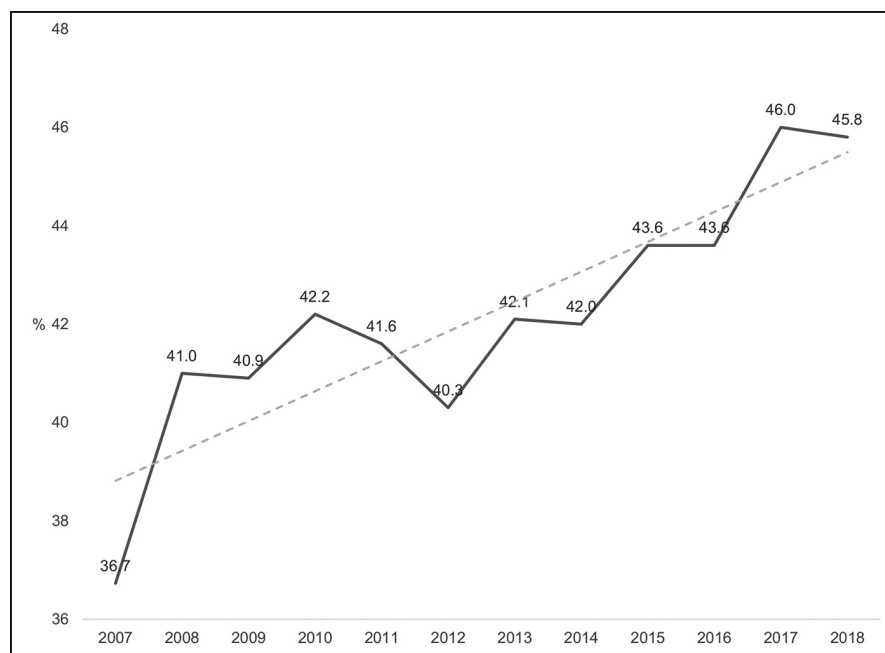
Source: Eurostat (2020a)

Data on the Gini coefficient has been collected since the end of the Second World War and, in the EU-SILC series, since 1995 (Bulgaria 2000), and it is clear that we are witnessing something historical. The current crisis as a result of the pandemic is not yet taken into account as the most recent data refer to the end of 2019. Bulgaria is not only rooted at the bottom of this indicator in the whole EU – Lithuania is the next worst, at 35.4, against an EU-27 average of 30.2 – but is also in a particularly unenviable position in the face of the current recession and economic crisis. Between 2010 and 2019, Bulgaria registered only moderate economic growth but, nevertheless, allowed inequalities to increase. If inequalities in society in an ascending phase of the economic cycle have not been reduced, there is no way to improve these in conditions of stagnation. The conclusion is that the additional added value generated in the economy by economic growth has not been distributed proportionally, but rather heterogeneously.

Another important indicator at EU level that measures income inequality is Eurostat indicator S80/S20 – the income quintile share ratio (Eurostat 2020b). This presents the difference between the incomes of the 20 per cent richest and the 20 per cent poorest within a national economy. If we compare the latest data, it can be seen that the situation is similar to the Gini coefficient (Eurostat 2020a). In 2019, there was an increase on the 2018 data, with the incomes of the first quintile being 8.1 times higher than the fifth. In 2017 the value was even higher but, otherwise, the trend is towards a gradual increase over the period of the last nine years. This is further proof of a statistically significant process of the consolidation of more and more resources among those who are already comparatively well-off.

Inequalities are necessarily troubling for a society; but the picture deteriorates substantially when they rise as high as they have in Bulgaria. According to the S80/S20 indicator, Bulgaria is again in last place in the EU, with no other member state having as high a difference between the incomes of the richest and the poorest (Romania is the next worst, at 7.08). The average for the EU-27 is 5.00. And the reason is hardly that the incomes of the poorest have decreased; on the contrary, they are growing but at an insufficient pace and one which is unable to respond to the rising cost of living and the prices of goods and services, as well as the rate of income growth of people in the uppermost quintile. This process can be easily seen in Chart 2:

Chart 2 – Share of national income in the hands of the top 20% richest Bulgarians



Source: World Income Inequalities Database (2020)

Chart 2 shows how much of national income is concentrated in the hands of the richest 20 per cent of Bulgarian society. It is obvious that the graph has a positive slope, with the values progressively increasing over the years. In 2018, a slight decline was reported compared to 2017, but it is small (only 0.2 percentage points) against the background of a general upwards trend since 2007 and, in particular, since 2012. At the beginning of this period, only 37 per cent of national income was controlled by the 20 per cent richest people in Bulgaria whereas, one decade later, the picture has deteriorated by nearly ten percentage points, with some 46 per cent of national income being under the control of the richest 20 per cent.

If we look only at the 5 per cent richest people in Bulgarian society in terms of their share of national income then, at the end of 2018 (currently the most recent data), they owned 21.5 per cent of national income (WID 2020). For comparison, in 2011 the same percentage owned 16.6 per cent of national income and, in 2000, 12 per cent. In twenty years, the share has risen by ten percentage points to a level that is not far off twice what it was.

Table 1 presents a comparison on this measure between Bulgaria and the other EU member states:

Table 1 – Share of national income held by the top 5 per cent richest people in EU member states

Country	%	Country	%
Slovakia	10.9	Hungary	14.4
Slovenia	11.5	Romania	14.5
Belgium	12.1	Cyprus	14.6
Estonia	12.1	Ireland	14.6
Czech Republic	12.3	Denmark	15.1
Croatia	13.1	Portugal	15.5
Austria	13.1	France	15.6
Poland	13.2	Greece	15.6
Finland	13.2	Italy	15.6
Netherlands	13.7	Germany	15.9
Malta	13.9	Latvia	16.2
Luxembourg	14.2	Lithuania	17.2
Sweden	14.2	Bulgaria	21.5
Spain	14.4		

Source: World Income Inequalities Database (2020)

Table 1 shows that Bulgaria is the only country in the EU in which the richest 5 per cent of the population holds over 20 per cent of national income with the next highest, Lithuania, being over four percentage points lower and against an EU-wide median of 14.4 percentage points – no less than seven points lower.

These data again suggest that economic growth in the last decade in Bulgaria has been distributed less evenly compared to the distribution of growth in other European economies.

It is such processes that catalyse the development of populism – a relationship that has already been described in the theoretical literature (Stankov 2020). Regarding the development of populism as a type of political speech arising out of the increasing inequalities in Bulgaria, there is still very little domestic concrete research in this direction, although Stankov (2020) has tried to distinguish which representatives in Bulgarian politics engage in a populist rhetoric and which ones do not, proceeding from the standard definitions of political rhetoric for right, left, centre, left populism and right populism.

At international level such research does exist, thereby creating an assessment framework, which gives the author reason to think deductively. Based on the theoretical literature, the three main criteria for distinguishing populist rhetoric from a political entity are as follows:

1. publicly-available official programme documents detailing the ideology
2. how the political entity defines itself
3. what the literature defines (economic and political) in relation to the positions the entity has held on certain issues back in time.

In this way, by adhering to the specificities of such a framework, it would be more straightforward to assess the changing level of populism over the years.

At the beginning of this article, it was suggested that inequalities and populist rhetoric are set to deepen, both at international and national level, and specifically in Bulgaria. There is no way to predict empirically in which direction these processes will develop and at what depth. However, the available statistical information on inequalities in Bulgaria is very worrying and needs to be the subject of serious research – both quantitative and qualitative. Only in this way can the right recommendations for conducting effective economic policy be identified and implemented, thus allowing one of the key causes of the rise of populism to be addressed in practice.

Conclusion

A study by the Chicago-based Initiative on Global Markets (2019) looks at the processes that affect distrust in representative democracy and which, in general, might develop it. There are no proposed solutions but the study does, however, contribute by consolidating the views of leading economists on vital public policy issues, achieved by interviewing them on important political issues. To the question, ‘Would enacting more redistributive expenditures and policies be likely to limit the rise of populism in Europe?’, 39 per cent agreed while another 8 per cent strongly agreed. Some 33 per cent were uncertain – but, with most of the rest not expressing an opinion, there were almost none who disagreed (just 4 per cent). This means that

nearly one-half of the leading economists on the panel actively believe that the state should be looking to strengthen its role in the economy via the means of the state budget. Such a recommendation is the exact opposite of what Bulgaria has been doing in the last few years not least because a number of politicians in Bulgaria engage in right-wing populist rhetoric according to which social spending should be limited.

From the theoretical literature and empirical information presented in this article, it can be concluded that a broad public and expert debate is long overdue on the problems of inequalities and the consequences of their growth, namely: the development of populist political rhetoric. In addition, in practical terms, it is necessary to implement reforms through the instruments of fiscal policy (taxes and government expenditures) in order to reduce inequalities to the point where they fall within socially acceptable limits, especially in Bulgaria. If this is not done, the country risks falling into a situation in which political populism will dictate economic policy. Future research, including econometric research, needs to focus actively in this direction, not least in revealing the relationship between inequalities and other macroeconomic indicators.

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