Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

O P I N I O N

on

INCOME POLICY AS A MAIN PLATFORM FOR IMPROVING QUALITY OF LIFE AND A FACTOR FOR REDUCING POVERTY IN BULGARIA

(on its own initiative)

Sofia, 30 November 2006

The plan of the Economic and social counil (ESC) for 2006 included the preparation of a draft Opinion on income policy as a main platform for improving the quality of life, and a factor of poverty reduction in Bulgaria.

The ESC President assigned the work on this document to the Standing Committee on Labour, Income, Standard of Living and Industrial Relations and the Standing committee on Social Policy. with the bulk of work going to the Committee on Labour, Income, Standard of Living and Industrial Relations.

Mr. Plamen Dimitrov – was appointed Rapporteur.

The Committees prepared a draft Opinion and submitted it to the plenary session for approval.

The Economic and Social Council approved the Opinion at its plenary session of 30.11.2006.

PRELIMINARY NOTES

The discussions on income policy were limited to the issue of wages and minimum guaranteed payments. As a protected income element, pensions were only partially covered, since ESC tackled that issue separately, when presenting its position on the problems in the existing pension system. The discussion also deliberately refrained from mentioning any relation to employment and did not discuss the issue of replacing remuneration by compensations.

In view of the absence of a publicly supported comprehensive assessment of the existing income policy, prominent place in the Opinion was given to findings and conclusions. The focus was on the 2000-2005 period, which was analysed on the basis of data supplied by the National Institute of Statistics. All additional calculations also made use of those data. The data used for 2005 were not final.

Because of the huge difference of opinions, consensus and balance was the preferred approach to ideas and suggestions.

The Economic and Social Council wants to convey thanks for the statistic information supplied by the National Institute of Statistics (NIS) and the National Insurance Institute (NII), as well as for the reports submitted by the Ministry of Labour and Social Policy (MLSP) and for the reports and analyses of the organisations represented on ESC.

I. INTRODUCTION

Income policy has been very much in society focus of attention in the years of transition to market economy, and has revealed significant differences and contradictions. Actions taken so far did not result in a jointly prepared, or at least formally structured medium-term income policy supported by the social partners, despite the recommendations of several specialised ILO missions and the experience and expertise of other countries.

The Economic and Social Council maintans that in the 1990s, income policy has been marked by a predominantly restrictive quality. The mechanism of incomplete indexation as per inflation rate applied initially, and the adherence to a great number of minimal and social payments, as well as the regulation of wage increase in the public sector, have restricted the growth of income in all sectors, and have resulted in a considerable real-term decrease. The decisions taken during those years of price, monetary, financial and other related upheavals, have proved an additional cause for the collapse of the purchasing power of income, and have accelerated the process of impoverishment of the population.

Alongside the economic stabilisation characterised by a relatively low inflation rate at the end of the 1990s, income policy also displayed changes that aimed at the lifting of restrictions. In some of the years, tentative steps were taken to increase budget wages and pensions. Changes were also introduced in the mechanisms applied, the most significant among them eliminating the dependence of social payments, additional remunerations and budgetary wages, on the national minimum wage and on taxation of above-limit wages in the public sector. The smaller restrictions on wage growth and the accelerated growth of minimum wages resulted in a moderate growth of income. This income policy, coupled with the economic growth in recent years, had a positive effect on income dynamics, although it was not adequate to the results achieved.

The public dialogue and the collective agreements, a major instrument of income policy, have been put to practice with varying results. In the first years of transition, the negotiations that took place nation-wide provided a solid platform for the future, on which all major approaches, mechanisms and parameters of labour remuneration were formulated, thus enhancing progress in collective bargaining for all sectors, notably the industrial enterprises.

The last ten years have been noted for their modified tri-partite nature: the restrictive influence of the international financial institutions, and the commitments to the process of European integration had their direct or indirect effect.

The Economic and Social Council, on taking into consideration the latent dissatisfaction of the population with the level of wages, pensions and protected payments, as well as the future convergence processes, now opens a discussion on the future income policy and its role in lowering the present poverty level and curbing the chances for a new poverty wave.

The present Position has been prepared on the basis of an in-depth analysis of the national income policy to date, and the results achieved. The analysis is also based on official information by NIS, MLSP, NII, Eurostat, as well as on the reports and analyses of the organisation represented on the Council.

II. FINDINGS, ASSESSMENTS AND CONCLUSIONS

1. Level and purchasing power of national income

The analysis of the national income level and dynamics, and their dependence on the economic results obtained make it possible for the Economic and Social Council to draw the following major conclusions:

1.1 Low level of income and lag, in comparison to gdp growth

Bulgaria is among the European countries with a relatively low standard of living and level of income. According to the data supplied by Eurstat for 2001, the average net income of the households in Bulgaria (calculated on the basis of the purchasing power standard) amounted to barely 26 per cent of the average for the 25 EU member states (NB This document was completed prior to Bulgaria’s accession to the EU on 1 Januarya 2007).

Compared to the 10 EU newcomers (of 2004) this ratio was more favourable (46%) yet the income of the Bulgarian households remained significantly lower. Over the past five years (2000-2005), the nominal and real-term income of the households had been growing. Nominally, individual income had increased by 53 per cent amounting to 215 BLN (approx. 110 Euro) per month in the year 2005. Despite that, real-term income growth lagged significantly behind the dynamics of the gdp growth. Over the period of 2000-2005 real-term gdp increased by 26.6% while real-term individual income per household only increased by 18.2 per cent. Compared to the EU countries the positive trend in the Bulgarian household income had not changed its relatively low level significantly.

1.2. Decrease in the purchasing power of income in comparison to the period of onset of reforms

Low income level in Bulgaria was combined with a considerable reduction in real-term income. Despite recent recovery, income remained below the 1995 level. The difference became even bigger if compared to the level at the time of reform onset (1990). In 2005, the level of real-term income of the population amounted to little less than half of the income level in 1990.

The erosion in income affected all major sources. In 2005, real-term wages approximated the 1995 level but lagged seriously compared to the pre-reform level of 1990 and the purchasing power was just half of that in 1990. The issue of a higher labour remuneration was related to wage structure mechanisms and more specifically to its link to economic results.

Pensions, as a main income source for nearly one fourth of the country's population, were also low and subject to a strong erosion in 1990. Unlike other income sources, they were the quickest to recover their purchasing power.

In real terms minimum payments protected by the state (i.e. minimum wages, social pensions and social benefits) decreased rapidly. As a result from the more significant increase of minimal wages over the past few years, the purchasing power of the latter also increased recovering more quickly than the remainder of the guaranteed minimal payments. In real terms it reached the 1995 level, while still lagging behind the 1990 one, by approx. 42 per cent.

Payments of social pensions and social benefits (guaranteed minimal income) were the least protected. The purchasing power of the social pension was decreasing by about one fifth in comparison to 1995, while that of the guaranteed minimum income decreased by about two fifths. Social benefits therefore, since they are calculated on the basis of guaranteed minimal income, were considerably lower in real terms than the rest of the minimal payments. The loss of purchasing power of social payments showed that the mechanisms for their definition needed to be changed.

1.3 Structuring a publicly acceptable income differentiation and fragmentation of the population

The differences in the dynamics of individual income sources accelerated the process of social fragmentation based on income. Polarising trends became obvious in society (notably between income from wages and pensions, between wages in different economic sectors and between wages and social payments), as they did not result from income increase due to better efficiency and bigger production output.

Compared to the other EU countries Bulgaria did not display a high income differentiation. Jinni's coefficient measuring household differentiation according to income showed a tentative development trend. It was shown to grow from 0,23 to 0,36 until 1995, and then to drop to 0,31 in the year 2000. In 2004 it grew again, reaching 0,34 in 2004, only to drop again to 0,32 in 2005.

Population polarisation measured by the rich/poor social layers income ratio, followed the same trends of development. In 1995, the ratio between the 10 % richest and the 10% poorest in the population was 11.9. It dropped down to 9 in 2000. In 2005, it was 8.8. Polarisation might be even deeper if undeclared income is taken into consideration.

In terms of wages the sectors could be clustered around the two extremes, with a clear tendency of digression. Production and financial brokerage brought highest wages. Processing industry such as textiles and clothing, or tanning, along with agriculture and hospitality industry, went to the other extreme, with a huge difference in remuneration.

In industry, a fragmentation process took place among those working in monopolistic sectors, and the profit-bringing and losing branches. The relative wage structure had characteristically remained unchanged in industry compared to the situation from before the reforms. Only the differentiation between the highest and lowest paid branches was on the increase.

2. Labour Income

Labour income was the main source of funds and brought prosperity to the majority of the population. **The Economic and Social Council** is of the opinion that the income policy aimed at wage structuring is of a primary importance for improving the standard of living. This relates to the level and dynamics of wages, and their structures.

2.1 Labour and Wage Costs

Income policy after 2000 did not incorporate any specific instruments to affect the increase in funds to remunerate labour. In monopolistic and subsidised enterprises, the public sector kept wages regulated in order to restrict the growth of labour costs and to achieve higher efficiency. In the budgetary sphere selective restrictive policy was applied and costs were tied to the need for restructuring in some sectors.

The structure of labour costs on a national level is a generalisation providing not-too-precise comparisons to other countries because of the difference in the conditions of taxation and insurance. Between 2001 and 2004, labour remuneration (basic wages, additional payments, bonuses etc) amounted to approx. 70% of the general labour costs while the remainder covered social and health insurance (approx. 24%), compensations, social expenditure and the imposed taxes, educational costs etc. The comparison to other EU countries shows that Bulgaria did not differ significantly from the average EU level.

In the sectors, the differences were objectively justified and demonstrated themselves mainly in certain elements of wage costs. Additional remuneration merits a particular interest here and is ever so topical. The general share of all additional remuneration in 2004 amounted to 9.72% of general labour cost in the country. This is how it was structured:
– 0.57% for extra labour (in the productive and processing industry, production and distribution of electric energy, gas and water; as well as in the health sector, between 0.81 and 0.99%);
– 0.42% for work in shifts (production 1.56%, transport and communication, and health sector, 0.82%);
– a total of 0.48% for work in harmful conditions or other specific conditions of labour (production 1.99%, transport and communications 1.72%, production and distribution of electric energy, gas and water, 1.44%);
– 6.32% for continuous work, (near the average for the entire industry, between 3.3% and up to 5.7% in services, and slightly over 9%, in state machinery, and education).

The data show that the main share in additional remuneration went to cover prolonged-working time remunerations not directly related to labour productivity thus restricting flexibility in wages to a certain extent.

Wage structure constituted a more detailed characteristics of the shift in importance of the individual elements and illustrated the recognised rules in remuneration structure. Between 2000 and 2004, the wages for the length of time served were pegged on 70% of the gross wage sum (for the year 2000 it was 68%), while remuneration in main wages increased by approx. 0.7% to 1% per year after 2001. In 2004, it had already reached 8,2%. Despite this increase, the bonuses did not acquire significance, and were not that popular so they did not present a motif for a better quality of labour. The additional and other labour remuneration showed a relative decrease, with the 16% of 2000 dropping down to 14.4% in 2004. The share for extra labour remuneration remained almost the same, close to, and slightly over, 0,9%.

The average cost of labour in Bulgaria (one hour of labour per one labourer) was increasing with a moderate speed, reaching 2.90 BLN in 2004. The comparison to the Euro was definitely to the detriment of cost of labour in Bulgaria. The recalculation of values according to the parity of purchasing power put Bulgaria at the last place in Europe, with the difference from the average EU value approx. 6 times. This low remuneration not only took the Bulgarians away from the average EU standards of life, it also created conditions for a social dumping. Bulgaria remains attractive only for investors who benefit from low labour costs as a crucial factor for competitiveness on the EU markets.

2.2. Dynamics, and differentiation, of wages

Average wage dynamics usually allows for monitoring of income policy in all conditions such as undeclared wages, incorrect accounts and openly grey sector of economy. The real-term increase in average wages achieved in 2005, was about 10% compared to the year 2000, and did not eliminate, in practical terms, the wage erosion of 1996. Compared to the figures from the time of the onset of reforms, this particular parameter amounted to approx. 50% of its cost in 1990.

The real-term change in average wages for organisations and activities supported by the budget was clearly noticeable, 24.5%. In terms of average wage size, the budgetary sectors went well ahead of the economic sector, and the gap between the two systematically widened. The real-term change in average wage for economic activity for all five years was symbolic, 6.0%.

The average wage in public and private economic sector maintained a difference which shrank slowly: in 2000 the average wage in the private sector amounted to 62% of that in the public sector while in 2005 it reached 65.4%. The explanation is universally known, though difficult to prove: part of the private sector remunerations had not been declared in order to reduce general labour costs.

The difference in the wages of men and women was definitely shrinking in the period under discussion. While in the year 2000 the average wages for women accounted for 75.5% of those for men, in 2004 this percentage was already 82.4%. The diversity in economic activities was very great and changes were not always positive. Mention should be made of examples of sustainable increase and of closing the gap between wages for men and women (some women received wages which accounted for 95-99% of men’s wages) in sectors such as water transport, water supply, construction, trade, car repairs and retail trade in fuels, furniture industry, wooden material production, trade in wooden products, etc.

Inequality in remuneration of the employed could be monitored through the generalised data supplied by NII on income distribution of insured employees. Persons with an average insurance income up to one minimal salary constituted about one fifth of the total number of insured employees in both 2001, and 2005. The biggest number of the insured was in the lower strip of the gross wage bracket (between one and two minimal salaries), while their annual share was constantly growing, from 34% in 2001, to 48.8% in 2005. The share of the employed with a gross wage bracket between 2 and 4 minimal salaries, was sustainable, approx. 26-28% and only slightly tipped down to 23.5% in 2005.

2.3. Minimal national wages

Minimal national wages are a fundamental element of any income policy since as a value of unqualified full-time labour they should be tied to guarantees for the minimal demands for reproduction of the labour force. The dual - social and economic - role of minimal wages can hardly be successfully balanced. The combination of the social and economic functions of minimal wages is a question of methodology but also a political issue since it is determined by a decision of the Council of Ministers. Achieving an acceptable balance between the two functions would mean, according to the Economic and Social Council, a guarantee of the minimum of needed life-supporting funds on the one hand, and on the other, a commitment not to create economic difficulties for the employers, and to motivate workers and civil servants to achieve better qualifications .

Over the studied period, the policy that was followed gave priority to the increase of minimal wages. The priority of minimal wages over the remainder of minimal income was protected once in 2005, by a real-term increase of 19% while over the remaining years, the approach of plus 10 per year was applied as a result from three-year budgetary forecasts. The general real-term changes between 2000 and 2005 achieved the impressive 54.4%. The fears of negative consequences for employment and competition did not materialise.

When compared to the average wages, the advanced growth of minimal wages resulted in a changed ratio. While, in 2000, the ratio was 33.5%, in 2005 it reached 46.9%, practically equal to that of 1990. Yet the minimal wages in Bulgaria, in their parity and purchasing power, still lag in times, compared to those of the EU countries, compared even to some neighbouring countries: 3.7 times less than in Greece, and 2,6 times less than Turkey.

Despite the priority of minimal wages increase, their definition continues to present problems. **The Economic and Social Council** is of the opinion that as a combination of economic and social functions, this definition should be formualted on the basis of a public dialogue, taking into consideration the dynamics of the poverty line, and the average wages.

The minimal national wages had no positive effect on the rest of the protected minimal income since they had been independent for too long. However, the nature of relations between minimal wages and the scale of the “working poor” phenomenon, had since become more obvious.

Among income policy priorities was the task of doing away with the “working poor”, a syndrome which was indisputably characteristic of poverty in Bulgaria. At a later stage this task was incorporated into the Strategy and National Plans to fight poverty and social exclusion, and spilt over onto the signed Social Inclusion Memorandum. As a consequence, no particular tasks were formulated (with the exception of those on minimal income and social benefits) and in the absence of requested intervention, the focus shifted on the logical consequences.

2.4. Wage-Productivity Ratio

The comparatively weak effect of the economic growth on wage dynamics resulted from the weak link between wages and labour productivity. The dynamics of the real-term wages lagged behind that of labour productiviy. Between 2000 and 2004, the average labour productivity (gross added value per one employed person) in the country increased by approx. 10.7% while the growth of the average real-term wages only reached half of this (5.4%). In 2005, the ratio was considerably higher, and on the basis of the preliminary data for 2005, it could be said that labour productivity had increased in comparison to that in 2000, by 14.5% while the real-term wages had gone up by 10.0%.

The discrepancy between productivity and real-term wages was also demonstrated in the three sectors of economy. In agriculture and industry increase in productivity was going hand in hand with a real-term decrease of labour remuneration. Between 2000 and 2004 agricultural productivity increased by approx. 4% while real- term wages dropped by 4%. In industry, the differences were even deeper, with productivity increasing by nearly 18%, and real-term labour remuneration of the employed decreasing by about 3%.

Serious concern was also expressed on the slow wage increase in processing and excavating industry. In the first, real-term wages were behind by approx. 20 percentage points, and in the second, the figure was approx. 45 percentage points.

This showed that especially in the private sector of economy business had chances to increase labour remuneration in the future. Therefore, over the next couple of years, we can expect a speedy increase in real-term labour wages compared to the increase of productivity of labour. However, this cannot be a long-term trend. The weak link betwen wages and economic results is one of the reasons for the comparatively weak effect of the economic growth on the prosperity of the population.

3.Tax and Insurance Burden

Over the period studied, income policy focused on the increase of real-term wages through a reduction of the burden of taxation, incl. the introduction of elements of family income taxation. The changes concern mainly the increase of non-taxable income and/or reduction of tax rates. This instrument of state control seeks to counterbalance the negative effect of the increasing personal insurance contributions.

For the five years of the period, tax alleviations were considerable, with a different effect on low, average and high income. The non-taxable minimum increased by 50 BLN accounting for a total increase of 62.5%. With the four tax levels unchanged, the ranges of the tax basis altered and tax rates were reduced by 10 percentage point each. The figure was 14 percentage points for the highest income.

Parallel growth was noticed in insurance shares paid for by the employed. Over the five years (compared to the year 2000), the individual contribution increased by 3.45 percentage points, as a result from the freezing of employer-employee ratio at 75:25 in 2003 and 2004. The total size of the individual insurance contribution for 2006 reached 12,425% with a 65:35 ratio.

The reduction in total taxation and insurance burden affected positively the net size of the average wages for the country. In 2000 it was 77.5% of the gross sum. This led to a small increase over the next few years, following which it froze at 79%.

In 2005, tax alleviations were introduced for families with children. The attempt to reduce the yearly tax basis for one of the parents materialised in mid-2006 and brought about quite a few operational difficulties. The families of working parents with a gross salary slightly over the minimal national salary, did not benefit from the reduction of the tax basis either, because taxation was inapplicable in their respective cases, or because the effect remained symbolic. Thus, alleviation in family taxation remained invalid for the predominant number of “working poor”.

4. Dynamics of the main pension types

In importance and weight, pensions are second to wages in the structure of national income and depend directly on income received until retirement.

Pension costs after 2000 increased on an annual basis, albeit at a different speed. As a share of gdp they vacillated around 9.0% (9.4% in 2000). The increase in pension costs for insured length of service and for old age was more slow compared to general expenses, and reflected the legal requirements and some operational decisions aiming at enhanced social protection.

The average pension dynamics for an insured length of service and for old age shows predominantly positive real-term changes (exception was made in 2001); the total figure of the real-term increase for the entire period can be said to have been approx. 19%. Thus in 2005, the average pension reached 54% of the pension size at the beginning of the transition period.

The coefficient of replacement in the case of the average pension for insured length of service and old age, amounted to appox. 40% in the first two years; followed a smooth increase, until it reached 43.4% in 2005. If we take into consideration that pensions are not subject to taxation and that when determining the ratio, the net average wages for the year under discussion were accounted for, the replacement coefficient would be considerably higher, with an average of over 11 percentage points (55.3% in 2005).

Changes in social pensions and minimal pensions for length of employment were more modest considering that for 2005 alone those changes were higher than the rest. The total increase for the five-year period was only 10.1% which meant that in 2005 they remained equal to one third of their value in 1990. It is on those pensions that the inflation shocks of 1996 and 1997 are still weighing and as a result the pension beneficiaries face objective poverty and social isolation. Inherited pensions (with a guaranteed minimum of 90% of the social pension) should practically follow the same rate of change.

Until 2004, the maximum pensions followed the real-term changes in social pension, owing to the fact that they were structured through the social pension). The change of mechanism (calculating of 35% of the maximum insurance income for the year in question) contributed to the indisputable growth of maximum pensions in 2004, and put the real-term increase for the five-year period at over 102%.

The grouping of pensioners according to the size of their pensions supports the claim for self-reproducing inequality, and the subsequent poverty of pensioners. The share of pensioners receiving a pension up to the minimal size showed a slight decrease over the years, then froze around and slightly over, 13% (or 300 000 pensioners). The number of pensioners with up to, and slightly over, average pension, amounted to approx. two thirds of all, and in 2005 approximated three quarters of the total number of pensioners.

The discrepancy in pension size was also demonstrated in the women/men ratio predominantly determined by the existing difference in the required age of retirement. The nominal option for the women to get a pension at an earlier age, and with a shorter insurance length of service, and the considerably easier access guaranteed for them prior to 2000, resulted in lower pensions for women in comparison to the pensions for men. As a rule, the replacement coefficient for women is also lower, since their remuneration lagged behind that of men.

The NII analyses show that by 31.12.2005, the average size of the new pensions for insured length of service and for old age for men was by over 34% higher that of the pensions for women. This discrepancy was basically a result from the huge differences in the insurance income. Thus, the average individual coefficient for men who had retired with a third category of labour during the year was 1,508 compared to 1,159 for women in the same category of labour, and entitled to the same pension.

The new pension model affected the dynamics of pensions, either old or recent. It is admitted that, all other conditions being equal, the pensions under the old legislation were behind those adopted under the new legislation. This was also due to the updating of those pensions by a coefficient reflecting the inflation and the increase in the insurance income during the preceding year. For some individual years the determining factors showed different behaviour and value, their ratio varying from 80/20 in 2000, to 75/25 in 2005.

5. Poverty level and Social Protection.

There is still no formally determined poverty line in Bulgaria. The numerous studies in this field come up with different assessments of poverty levels. However, these differences are due to differences in methodology. Bulgaria's accession to the EU placed the discussion on poverty line in the country on two planes: national average poverty level, and poverty level compared to levels in the EU. On grounds of the existing statistic information, **the Economic and Social Council** comes up with the following:

Contradictions between relative and absolute poverty in the context of united Europe. Bulgaria is one of the countries in Europe with an acceptable percentage of poor (compared to the average standard of life in the country) and a significant difference in the absolute level of poverty as compared to the average EU level. According to the Eurostat methodology for poverty measuring (60% of the net equivalent medium income of households), in 2001 the relative share of the poor in Bulgaria was 16% (assessed on the basis of the purchasing power standard), as compared to the 15% of the average EU level. In recent years the relative poverty in the country has been on the decrease. In 2004, poor population accounted for 15.3%, with a 14.4% for 2005. These data show that relative poverty in Bulgaria is not higher that that in the developed European countries.

Greater concern is caused by the fact that in absolute poverty levels Bulgaria lags significantly behind the average European levels. In Bulgaria, poverty line comes up to 22% of that in the 25 EU member countries. This means that the standard of living of the poor in the country is substantially lower thant that in the EU countries (approx. 3.5 times).

Lower efficiency of social protection of the poor. The role of social assistance in the fight against poverty is not prominent, compared to that in the developed European countries. Owing to the social benefits for the poor in 2003, the share of the poor decreased yet this decrease was barely 3 percentage points while in the EU countries this share amounts to 9 points,

This lower efficiency of social assistance springs from the issues of defining poverty line, the relation of social benefits to this line, and the more just distribution of the benefits among the poor. The guaranteed minimal income which serves as a basis in determining the social benefits, cannot be accepted as an adequate poverty line. The monthly size for 2003 and 2004 has been defined to be 40 BLN, while since mid -2005 it has remained 55 BLN thus hardly meeting the minimal demands of the people. Poverty line for 2004, as calculated according to the Eurostat methodology, was found to be 142 BLN/month per equivalent unit, and 152 BLN for 2005. These differences among statistic calculations and political decisions demonstrate the need to define a poverty line adequate to the existing conditions, and then to adapt the social benefit system to it.

According to the results from the 2003 study of poverty ("Bulgaria: Challenges of Poverty, 2003", NIS, 2005), the efficiency of the system is not very high. The assessments show that the social benefits system covers, along with the poor, also a considerable share of non-poor people. This requires amendments in the social policy with the aim of achieving better allocation of funds and hence a higher efficiency.

6. Collective agreements on labour remuneration

Labour remuneration is an element of all sectoral and general collective labour agreements concluded over the period. When the procedures are well grooved, collecting bargaining acquires a new rhythm which takes into consideration the amended requirements in the Labour Code for a maximum length of the collective labour agreement. Among the main sections of the agreement there is one tackling labour remuneration. It is of a relatively traditional contents and the amendments refer predominantly to the values of the individual parameters.

Most of the collective labour agreements define the minimal wages for their sector. Minimum wages per the hour have been fixed for isolated cases only. More often than not the minimal monthly remuneration for the sectors is bigger than the minimal national wages, and each new agreement attempts to systematically and moderately increase this basic parameter. No significant change has been introduced into the differentiation of basic salary which years ago was agreed upon, according to accepted criteria and indices and according to the specific requirements of the branch.

Additional labour remunerations are another inseparable part of the collective agreements. Generally, their size exceeds the minimum level valid for the country. As a rule, the more substantial positive amendments are agreed upon in case of night work, or in case of unhealthy conditions of work, while in conventional cases the increase for longer hours of work is usually equal to the legally accepted standard, or slightly above it. In isolated cases, there are special regulations for bonuses, including shares in the profit and ownership.

Considering that there are differences in the economic and financial status of the enterprises in the branches, some of the agreements are more of the nature of recommendations for direct transfer of values under the individual parameters in the enterprise. Possibilities and procedures have been foreseen to postpone, or reduce the branch parameters in cases of lasting or newly emerging financial difficulties.

The sphere of influence, and the scale of application, of the sector collective agreements stem from the degree of representation of employers and the degree of presence of the trade unions. According to the experts, the sectorial collective agreements and those in enterprises and organisations guarantee joint protection for only 38-40% of the employed. Apart from the objective reasons, this could be due to the fact that the legal chances to spread the collective agreements, their sections or individual elements, nationawide exist on paper only, and that the number of small and micro enterprises which do not have trade union organisation, is very high.

The spread of sectorial collective agreements does not materialise owing to a couple of reasons: lack of insistence on part of the parties that have concluded the agreement; lack of participation by all branch employers' organisations in the collective agreement process, difficulties in determining the dividing line between the enterprises, the attempts, by the MLSP administration, to assess the reached agreements on wages.

Positive is the development in the process of sector bargaining related to the minimum insurance income according to the type of economic activity and the nine categories of personnel, introduced in 2002 and applied continuously for the fifth consecutive year. The initial idea was to oppose the shady and grey sector of the economy in view of the repeated attempts not to declare labour remunerations, which results in the reduced costs of insurance contributions. In fact, that approach acquired the quality of a mechanism for simultaneous protection from unfair competition among the economic subjects, and of minimum rights for the employed.

A major weakness of the collective agreements, especially in the enterpises, is the absence of a direct relationship between wage increase, and labour productivity, the underestimation of inflation as a factor of negative influence on the purchasing power of labour remunerations, lack of will, or lack of skills, to agree on a system of bonuses related to the quantity and quality of the work contributed.

III. DIRECTIONS AND MECHANISMS TO IMPROVE THE INCOME POLICY

The Economic and Social Council considers it necessary to propose to the institutions structuring the income policy, directions and mechanisms for its improvement. The Pact for Economic and Social Development of the Republic of Bulgaria until 2009, of 26 September 2006, formulates the national priorities and puts the focus on short-term individual policies. The document bears witness to the common will to solve the major problems and determines the landmarks for the planning of specific actions and for undertaking commitments. Its appearance, on the threshold of Bulgaria's accession to the EU, ought to serve as a catalyst of the efforts to solve issues which have been underestimated, neglected or delayed for years. In this context, the income policy until 2009 finds its feet in the Pact since the three parties that have signed the Pact bear equal responsibility for its implementation.

The Economic and Social Council rallies around the challenges in the sphere of income and agree that it will be necessary to follow an active policy towards a step-by-step convergence with the levels achieved by the EU member countries in the long term, and to set up efficient mechanisms for maintaining the social balance, and more specifically, for assisting people with low-income.

1. The Need of a Consensus on the Income Policy

The Economic and Social Council expresses its firm conviction that it is imperative to develop a strategy for the increase of wages, pensions and other payments, until 2009 as a short-term, and until at least 2015 as a long-term target. The need for a complex action, driven by the lasting goal for current protection of real-term wages, and in the long-term perspective, by the desired compensation for the real-term decrease of the labour remuneration accumulated in the preceding years, has been justified by Bulgarian and foreign experts.

Most of the European states develop national systems for wage regulation which reflect the general characteristics of the region and their own specificity. We are less interested in a generalised approach and institutional structures, and more interested in the traditions, which have evolved scores of years ago around the idea that such systems would support the prosperity of states. It is therefore possible to coordinate actions within the EC “Broader directions of economic policy” through recommendations for development and through wages.

The Economic and Social Council recommends the formulation of priorities and principles to help to achieve agreed targets in the sphere of income, and to accept or develop instruments and mechanisms for their implementation. The package for up to 2009, and the existing reports by experts and researchers will be extremely helpful in these efforts.

2. Income Policy Goals

The targets in the development of income until 2009 map out the direction without defining a specific size for the desired results, thus allowing for a free assessment of what has been achieved. The major landmark in the management programme of the government is the improved standard of living, the fight against poverty and social exclusion and a development aiming at catching up with the 25 EU member states.

In view of the forthcoming full membership of Bulgaria in the EU, **The Economic and Social Council** finds it necessary to formulate three mutually related, mutually complementary, and simultaneously implementable goals in income policy, namely:

– current protection of income against inflation and restoration of its real-term values from the onset of the transition period;
– pronounced convergence of average wages in Bulgaria with the minimal wages in some neighbouring states and in states of the South Europe region (Greece, Spain, Portugal), in view of their attractiveness for potential Bulgarians employees of working age;
– immediate approximating of the basic parameters of wages and pensions in the EU member states and with the 10 new EU members.

3. Directions for the Improvement of the Income Policy

The Economic and Social Council is of the opinion that the increase in the major types of income in compliance with the economic results achieved, should be the main target of the income policy in short-term, and medium-term perspective. The experience so far points to the need to develop income policy parameters and set up a system of indices to monitor and assess its practical implementation. To protect the consumer income, it will be necessary to introduce legal measures aiming at restricting, and eliminating, the unloyal trade practices.

In compliance with the agreement on income as formulated in the Pact, **The Economic and Social Council** takes the following directions of action as major directions:

3.1. Conditions and Mechanisms for a closer link of remuneration and economic results

The Economic and Social Council recommends to the social partners to take committed actions to tie the remuneration to productivity, and achieve fair price for labour by means of:
Further development of the practice of negotiations on income on sector level and widening of the commitments with a view of restricting unloyal competition and undeclared payments.
Widening of the practice of agreements in the enterprises, to motivate workers and civil servants through the adoption of modern systems of payment, which take direct consideration of achievements, including new forms of action such as participation in the profit, shares in the ownership etc.
The Economic and Social Council assesses positively the principally new mechanism for linking remuneration to economic results through agreeing to a minimal index of annual growth, to be compulsory for the budgetary sphere and recommendable for the real sector of economy, and determined following negotiations among the social partners on a national level and on the basis of four factors, namely inflation, labour productivity, competitiveness and market situation, and changes in taxation and insurance. The Council consider that a solid basis the understanding that the index should be higher than inflation which will result in a real-term increase of wages, according to practices predominating in the EC-15. The national index will serve as a basis for branch negotiations in view of the need to bring out other important elements.
In the annual discussions on the national index inflation will be one of the basic parameters, at least until Bulgaria joins the Euro zone. It is possible to discuss which value should be taken into consideration, whether the forecast for the year under discussion, or the established value of the preceding year. The experience of most of the EU states shows that the forecast inflation is the determining factor. In Bulgaria however forecast and actual inflation do not always match, moreover, the recent years could be quoted as typical for their underestimation of the inflation index. These facts, along with the conclusions for two-tier depreciation of wages over the past fifteen years, entitle the Economic and Social Council to recommending the use of the actual inflation for the preceding year as an index.

Taking labour productivity into consideration proves more difficult, since until the present moment its dependence on wage growth has been simply neglected in the preparation and adoption of decisions. In order to define the objective and direct relation to wages, it is necessary to adopt the correct measuring tool. **The Economic and Social Council** is therefore inclined to accept the Bulgarian state standard per an employed person for the preceding year, as suitable for use on national and sector level.

The link between inflation and productivity and wages will be better revealed in the negotiations on wage increase for the individual branches, and for the industrial sectors. In the latter it will be possible to take into consideration the expectations of the employed for the dynamics of production.

The convergence of wages and economic subjects in the same branch acquires ever greater importance for the enhancement of competitiveness. Considering the desire for a just distribution of economic profits and for a bigger interest in Bulgarian enterprises, **The Economic and Social Council** considers it useful to negotiate, and observe minimal standards in labour remuneration in the branches. The prospect of branch uniformity or of at least a similarity in remuneration is an instrument of attracting qualified and trained personnel and inviting back Bulgarians who are at present wasting their qualifications outside their own country. It is still not recommendable to count on foreign workers only, especially under the present wage level, since huge additional funds will be needed in their case for language instruction and adaptation. Fair and objective comparison of the costs of foreign workers to the funds needed to increase wages for local staff can only be made on branch levels.

The Economic and Social Council is of the opinion that it will be useful to start work immediately on generalising the facts, and analysing wages in EU member countries which do not impose formal barriers before the Bulgarian workers. The natural effect of open foreign labour markets on the wage level in Bulgaria will not be avoided, but again, will come at a later stage. Meanwhile, it is quite possible to foresee the export of some professions outside Bulgaria. At the present stage it is already clear that the Bulgarian workers have good chances to receive wages several times higher, even if they are unqualified (as a rule, unqualified labour is unattractive throughout Europe). There is a distinct danger to sacrifice the future of whole branches to the subsidized low wage level because of the absence of close perspectives for a tangible change in the standard of living.

The Economic and Social Council recognises the collective bargaining on wages in companies as a tested instrument in balancing the interests of labour and capital on a micro level. Determining branch indexes for wage increase provides a solid basis for new work in the sphere of payments. Forthcoming is the establishment, in a formal manner, of dependency of wages on the achieved economic results. The introduction of mechanisms for wage structuring should become a regulator which takes into consideration the regulations in each branch, as well as the characteristic features of the economic and financial results of the companies. New development is expected towards encouragement of labour through payment for results achieved, participation in the profit and shares in the ownership, all methods widely applied in the other EU countries.

3.2. Improving Taxation and Insurance Contributions

The direct effect of taxation and insurance contributions on the net income available necessitates its further balanced regulation. We admit that there is a potential for reduction of the taxation burden and for reaching new levels guaranteeing comparative advantages over some neighbouring and other EU countries.

The Economic and Social Council expects that in the coming years, tax will cease to affect the income through labour and a just reassessment for low and high bracket wages will be made. The progressive taxation through differentiation of the rates and the step-by-step increase of the non-taxable minimum will result in alleviation for all despite the difference in the relative burden. Through expanding of tax alleviations tax payers will be motivated to avoid other (fake) forms of employment which help them to hide their income and/or to use the more favourable corporative taxation.

Special attention should be paid to the simplification of procedures, the greater precision of terms and the better opportunities of choice of tax payments, so that the people willing to pay should not become victims of bureaucracy.

The Economic and Social Council is confident that tax alleviations should be applied on a wider basis since they assist the implementation of national policies in various fields. Thus, in order to improve the quality and adaptation of the employed, tax alleviations could be envisaged in cases of personal investment such as buying a computer, learning a foreign language and acquiring better qualifications. Further measures for the development of family income taxation, and for better assistance for the socially vulnerable and disabled people, are also needed.

The alleviation of the insurance burden also contributes to the increase of the available funds in business, to the employed, and possibly also to the state as an employer, mostly in the shape of economising. This unanimity of purpose is a weighty argument for the future consideration of different measures, such as nominal decrease of the insurance contribution percentages, changes in the employer-employee ratio, the taking over, by the state, of part of the insurance contributions for some types of risks. The positive results are usually related to revealing some aspects of the shady economy, increase in the number of new jobs, wage increase. The negative aspects are less often subject to comments, and the tipped revenue balance in the state public insurance and the cost of the insurance payments, is considered responsibility of the state.

The Economic and Social Council supports the need of a step-by-step reduction of the insurance burden down to a level which will guarantee priority funding of a joint public system of insurance contributions. Changes should be introduced after serious research where dangers should be openly discussed, and their consequences assessed from a long-term perspective.

3.3. Adequate Protection of Minimal State-Guaranteed Population Income

The Economic and Social Council thinks it useful to use poverty line as a basis of the mechanisms for determining the protected minimal payments. The role of the minimal income for the improvement of the quality of life has been proved beyond doubt for the conditions in

Bulgaria as well. The steps that have already been taken are indisputably positive but it is now important to go from sporadic changes to periodical use of a mechanism to determine the protected payments, adopted by a consensus. Members of the scientific community, reports of the KNSB Trade Union Organisation, a project by MLSP for a medium-term income policy until 2009, have all pointed to that necessity.

We believe we have grounds to admit that there exists a social consensus on the need to determine, update and announce on a regular basis, an official poverty line. In the past year we united behind the methodological approach to its definition, used by Eurostat (60% of the medium equivalent net general income). **The Economic and Social Council** expresses agreement with the MLSP-launched draft project according to which poverty line should be linked to the basic minimal needs (level of food consumption, ratio of the expenditure for food and non food products 55:45). We believe that it will be necessary for the Council of Ministers to adopt a methodology for the definition of the official poverty line as soon as possible, and to define mechanisms for linking it to the national minimal wage and the social protection system.

The Economic and Social Council supports the commitments under the Protected Payments Pact and believes it necessary to meet these commitments in 2007, as follows:

· to define the national minimal wages following negotiations with the social partners, taking into consideration the official poverty line and the national average wages;

· to link the size of the minimal insured length of service pension, and that for old age, to the minimal national wage, keeping the ratio not less than 50%;

· to link the size of the social pensions for old age, and for disability, to the official poverty line, keeping the ratio not lower than 40%.

The social protection system should also be linked to the poverty line, as an accepted income line which would guarantee the physical survival of the individual to a satisfactory degree. This means that the social assistance will be based on the poverty line, and not on a value that lacks any economic justification.

The Economic and Social Council is of the opinion that it will be necessary to define the guaranteed minimal income as a minimum 60% of the poverty line and to have the accession coefficient match the needs of the risk groups. Thus it will be possible to better meet the minimal demands of the poor population, and to motivate the participation in the labour market and the demand for employment.

The social protection degree is objectively limited by the country's financial situation. Therefore, **The Economic and Social Council** is confident that social protection funds need to be spent in a highly efficient manner, with priorities clearly defined.

With their Position, **The Economic and Social Council** aims at launching a responsible public debate on the urgent changes in the income policy in Bulgaria, in the context of the country's imminent accession to the EU. Without any claim to comprehensiveness of the analysis and the proposed solutions, the Council insist on an adequate response and action by the government, and by the social partners, on the proposed goals, main directions and mechanisms for the increase of labour income and the reduction of poverty.