

# Chapter 3: The Middle Class in Bulgaria

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The Bulgarian middle class has rarely been considered in research. As a consequence, little is known about the size and the development of the middle-income part of the population, its living standards and political orientations, its opportunities for upward mobility. The present chapter addresses these questions and discusses recent trends and developments in the Bulgarian context that prove important for the positioning of individuals in the social strata.

One such development is the rapidly changing economic structure that has led to an increasing demand for certain professions and a declining demand for others (Eurofound, 2017a). Engineers, who traditionally belonged to the middle bracket of Bulgarian society, provide an example of the latter group. After 1989, in the course of privatization and rapid growth of the service sector, an increasing number of well-educated people in this occupation were faced with the risks of unemployment and loss of social status. By contrast, for ICT professionals, the technological change that took place in the 1990s and the outsourcing of businesses to the country that began in the 2000s led to a sharp increase in job opportunities and provided possibilities for obtaining incomes far above the Bulgarian average.

In general, those who benefited the most from the economic restructuring were the young and highly educated, possessing knowledge of foreign languages and very often having some experience abroad. Older people, the lower educated and those employed in specific occupations (very often in the public sector), were mostly left behind.

Emigration is another important issue for the Bulgarian context. After 1989, Bulgaria experienced large emigration flows (Mancheva and Troeva, 2011). This process was reinforced by the harmonization of educational standards and the introduction of a foreign language in the national educational curriculum at the primary level in 2000<sup>1</sup>, the elimination of visa restrictions on travelling in the European Union (EU) in 2001, the accession of Bulgaria to the EU in 2007, and the removal of restrictions on employment within the EU in 2014. As a result, many Bulgarians pursued employment abroad. This is of considerable importance for the incomes of the bottom 40%. Among post-communist countries, Bulgaria shows one of the highest levels of remittances from foreign countries as a share of the domestic product (World Bank, 2015).

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<sup>1</sup>At the primary educational level, a first foreign language, mostly English, is obligatory from the second grade, and a second Western language is obligatory after the fifth grade.

The process of emigration also has consequences for the middle part of society. Together with decreasing fertility rates, emigration has led to a drastic aging of the population and to a deterioration of the ratio between those in employment and pensioners. Coupled with a low GDP, this development has negatively affected the level of pensions and considerably increased the risk of poverty in old age. Therefore, retirement often means an exit from the middle class. Furthermore, the process of emigration intensified the economic gap between rural and urban areas. Bigger shares of the rural population have emigrated to work abroad or have migrated to bigger cities within the country (IME, 2016). This led to so-called “ghost towns”, populated mainly by low-income elderly individuals. In such rural areas, the opportunities for growth of the middle class are limited, confined rather to those areas that are close to larger towns and cities.

In the following section, we will study the development of household incomes in Bulgaria over the last ten years and show how the relative size of the middle-income group has changed over this period. In a second step, we will study how different factors—in particular, the occupation status, age, residence and household type of individuals—are associated with the chances of belonging to a certain income group. Furthermore, we will provide insights into the living standard of different social strata, by looking at aspects of housing and consumption. At the end, we will provide an overview of the political orientation of the middle class and conclude by reviewing important trends and developments that may be relevant for the future development of the middle class.

## 1. The income perspective

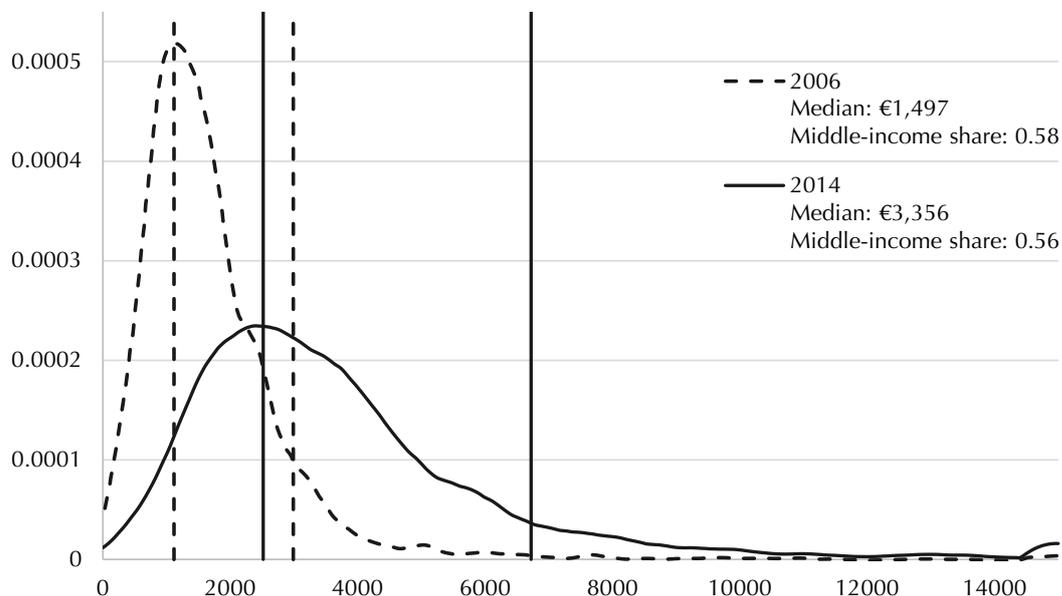
As in the remainder of this study, we adopt an income-based perspective on the middle class, using the interval of 75%-200% times median income as the definition for middle class incomes. We study the position and the development of this middle-income group over a period of nine years, from 2006 until 2014, by drawing on repeated cross sectional data from the European Union Statistics on Income and Living Conditions (EU-SILC). Furthermore, we are able to analyse individual-level changes of the class position over a three-year period by using longitudinal data from the rotating panel study of EU-SILC. Both types of data provide detailed retrospective information on the annual household income obtained in the year prior to the interview. Throughout our analyses, we refer to this income reference period and not to the period of data collection, which took place between 2007 and 2015.

The disposable household income provided by EU-SILC sums various sources of income at the personal and household level (including government transfers), and subtracts taxes on income and wealth as well as social security contributions. The

income measure also considers regular inter-household cash benefits received or paid by the household. This is especially important in the Bulgarian context, because, as noted above, many households rely on financial support from family members working abroad. However, our income measure might not fully capture another important source of income in the country—income from informal work. According to the World Bank, the share of the labour force in informal employment in Bulgaria amounted to approximately 15% in 2008 (Packard et al., 2012). This might lead us to underestimate actual incomes, as respondents might be reluctant to report earnings from unregistered self-employment, and especially from dependent employment without a legal contract.

Finally, it should be noted that the income variable is equivalised, meaning that the income has been adjusted for household size. This is important, since the size and composition of Bulgarian households have changed over the period that we study. In 2007, a household had on average 2.9 members, whereas in 2015 the average household size was 2.5. In addition, the share of households with dependent children has declined by approximately 10 percentage points between 2006 and 2015. This means that household income is increasingly shared among fewer household members. The equivalisation takes account of this development by allowing for comparisons across households of different sizes.

Figure 1 shows the distribution of the annual equivalised disposable household income in euros, for 2006 and 2014.

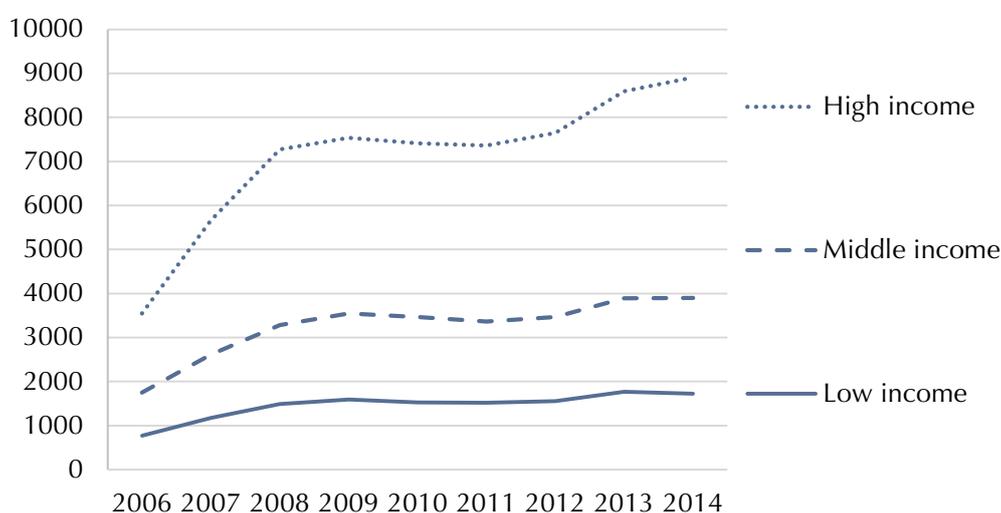


**Figure 1: Distribution of equivalised household income (annual)**

The size of the middle class in 2006 (defined as 75-200% times the median income) is between the blue dashed lines, a share of 58% of households. For 2014, it is between the red dashed lines, a share of 56% of households.

In Figure 1, the areas between the dashed lines represent the middle-income group for the two periods. As can be seen, the equivalised household income increased considerably between 2006 and 2014. The whole distribution has shifted to the right of the income axis and the median has more than doubled. At the same time, the income distribution has flattened out, with a larger right-tail of the income distribution in 2014, and accordingly, a slight decrease in the share of the middle-income group. In 2006, 58% of the Bulgarian adult population had a middle-income position. This share varied slightly over time and was biggest in 2009 and 2011. By 2014, the share of the middle class had declined to 56%.

An additional insight into the changes in the distribution of income over time is given by Figure 2, which shows the development of median annual equivalised household incomes within the different income strata.



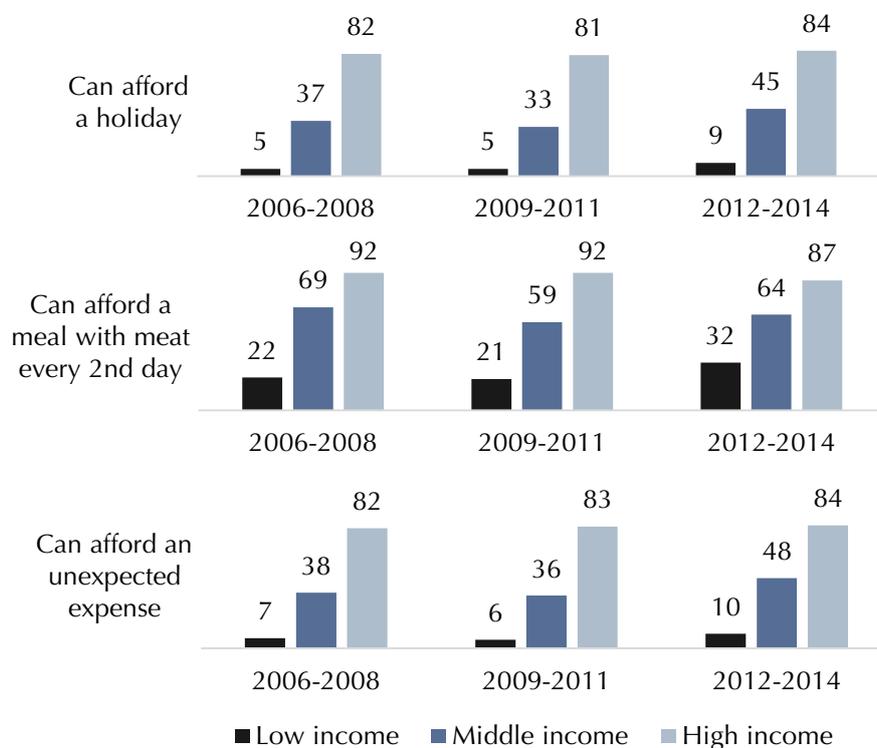
**Figure 2: Income per income class**

Median equivalised annual disposable household income within income groups, 2006 – 2014, in euro. Source: EU-SILC 2007-2015, weighted, own calculations, n=105,451.

From 2006 to 2014, the annual median equivalised income of the middle class increased by 55%—from approximately €1,750 to €3,890. A similar increase can be observed for the lower-income group—from €773 to €1,726 in the same period. The biggest income increase, however, was experienced by the higher-income group. Its median household income changed by 60%—from €3,350 to €8,900.

Across all groups, the biggest income increases were observed between 2006 and 2008. After the outbreak of the financial crisis in 2008, a period of income stagnation followed. From 2012 onwards, median incomes began rising again, at the fastest pace for the high-income group. This indicates an increased polarization of income, as also suggested by the rising Gini coefficient for equivalised disposable income inequality, shown in Chapter 2 of this book.

The middle-income group is not by definition well-off, as shown in Figure 3. In terms of consumption indicators for the period 2012-2014, only 45% of the middle class can afford a one-week holiday once a year and only 48% can pay unexpected expenses. Only 64% can afford a meal with meat every second day. These shares were lowest for the period 2009-2011, after the outbreak of the financial crisis. For the latest observed period, however, the consumption indicators are at a higher (or at an almost as high) level as in the pre-crisis period between 2006 and 2008. This consumption pattern reflects the developments of household income: Until 2008, median household income in all classes had been steeply rising; it went down slightly between 2009 and 2011, and since then has begun to increase again.



**Figure 3: Affordability of consumption per income group**

Source: EU-SILC 2007-2015, own calculations, weighted, n=46,988 households.

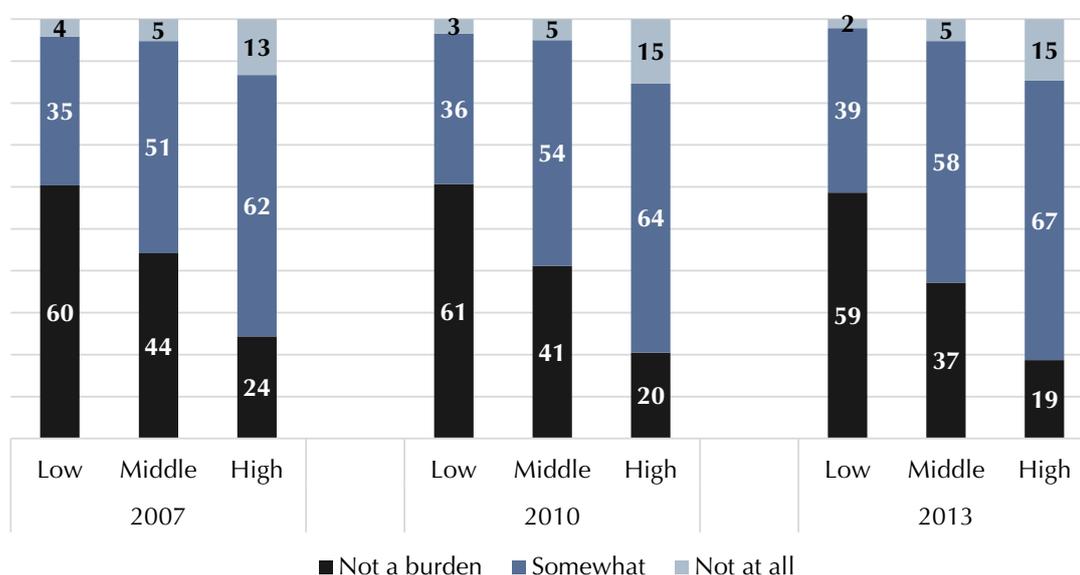
Overall, the consumption capacity of middle-income households remains low. This is also confirmed by an analysis of Eurostat (2015), showing that the median household income in Bulgaria in 2013 had the second lowest purchasing power in the EU (after that of Romania)—despite an increase of 24% in purchasing power since 2008.

## 2. Non-income-related perspectives

This section provides a more detailed picture on the position of the Bulgarian middle class by considering aspects other than income. We look at how different socio-economic, occupational and demographic factors relate to the class position of individuals and discuss how recent developments and characteristics of the Bulgarian context might have contributed to such relationships. Furthermore, we compare aspects of consumption and housing affordability across income classes and over time.

### The affordability of housing

According to our own calculations, over 80% of Bulgarian households own a dwelling. However, dwelling costs, such as heating, electricity and maintenance costs, pose a problem for many households; see Figure 4.



**Figure 4: Influence of dwelling expenditures on household financial situation**

Years are the average for a two-year period. Source: EU-SILC 2007-2015, weighted, own calculations, n=46,988.

In the low-income group, the majority of households experience their dwelling expenses as a heavy financial burden. Strikingly, a considerable share of the middle-class—between 44% and 37% over the period, also does so. Paying for dwelling costs appears to be a problem even for some high-income households. Between 2006 and 2014, 24% to 19% of these households indicated that dwelling expenditures pose a heavy burden on their financial situation.

The experienced difficulties are mirrored in objective measures of the cost of living: In 2015, 14.8% of the Bulgarian population lived in households that spent 40% or more of their equivalised disposable income on housing, while across all countries in the EU this average was 11.3% (Eurostat, 2017).

Particularly vulnerable are households of pensioners living alone in their own dwelling (Eurostat, 2017). The low level of pensions is very often insufficient to cover expenses on heating, electricity and maintenance, which results in a situation of “poor house owners”. Such homes, for their own part, are rarely attractive enough to be rented out and therefore seldom provide additional income for their owners.

### **Family stress**

The dual-earner family model is the dominant family form in Bulgaria. It is part of the legacy left by the communist regime, which strongly promoted the full-time employment of women. Since the transition to a market economy, the dual-earner model continues to prevail, mainly because the low wage levels demand the employment of both spouses. As a result, Bulgaria shows one of the smallest employment gender gaps in the EU. In 2015, the percentage point gap in employment rates between men and women amounted to 5%, compared to a EU28-average of 10 percentage points (Eurofound, 2016). This picture changes somewhat in the presence of young children in the household. Women with children aged between 0 and 3 have a lower propensity for paid employment compared to women without children (see Hofäcker et al., 2013).

In this context, a fair division of unpaid housework and childcare between the spouses and the possibility to ‘externalize’ part of the childcare responsibilities to public or private childcare services is essential for avoiding family stress and the ‘double burden’ for women. However, the actual division of unpaid labour between the sexes still follows a very traditional role model. Bulgarian women take over not only the biggest share of childcare duties, but also most of the housework (Hofäcker et al., 2013; Eurofound, 2017b).

On the other hand, the usage of childcare services for children between 3 and 6 years of age is widespread. In 2011, 58% (compared to an EU average of 47%) of the children in this age group received childcare for more than 30 hours per week (European Commission, 2013). For children between 0 and 3, this share was 7% and was lower than the EU average of 15%. The relatively lower share of children in childcare between 0 and 3 in Bulgaria might be due to the long maternity leave available for mothers and fathers (up to 52 weeks; see Jurviste et al., 2016). Further possibilities for a better work-family balance are generally limited: part-time employment is virtually non-existent in Bulgaria (NSI, 2017a), the working time autonomy is the lowest among EU countries (meaning that working time settings are generally fixed and set by the employer), and only a small proportion of employees engages in home-based telework (Eurofound, 2017b).

To date, little is known about differences in work-family arrangements in Bulgaria between different social classes. Empirical results that show a more equal division of household work for couples in which the woman is highly educated suggest that

middle-class families might have a less traditional role orientation (Hofäcker et al., 2013).

### **The labour market**

The Bulgarian labour market is characterized by relatively low employment protection in comparison to other European countries. As indicated by the Employment Protection Legislation Index (EPLex) developed by ILO (2015), the country scores below the European median in terms of legal provisions and regulations governing the termination and protection of work contracts. In addition, the widespread shadow employment leaves a considerable part of the labour force legally unprotected and uncompensated in case of sickness or dismissal. In contrast to most Western European countries, however, atypical forms of employment are less common. In 2016, only 4% of the dependently employed had a temporary contract, and only 1.8% were part-time employed (NSI, 2017).

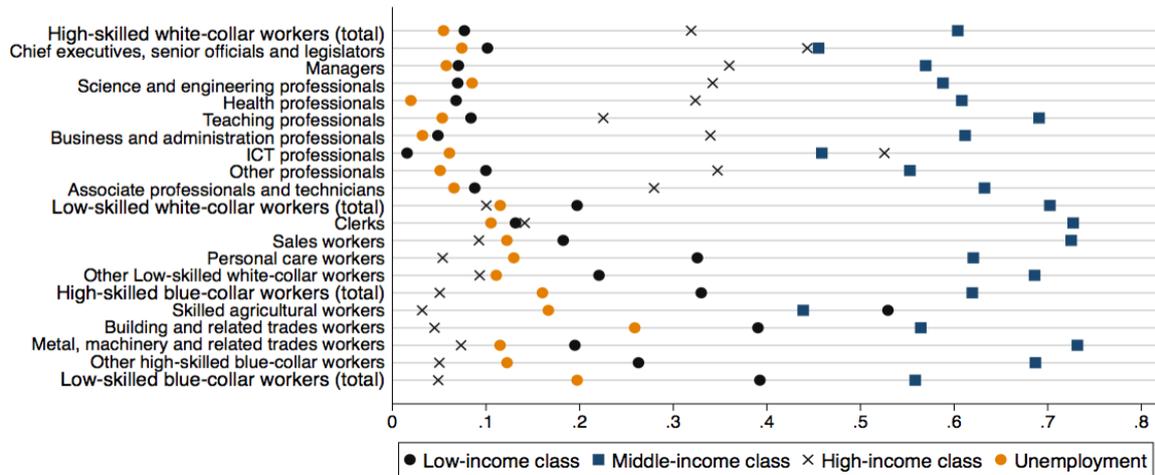
A further important characteristic is the low level of unemployment benefits. Unemployed people not entitled to insurance benefits receive just around €100 a month, although this amount might vary, dependent on the family situation and the presence of children in the household (NSSI, 2016). People entitled to unemployment insurance benefits receive 60% of their previous wage for a maximum period of 12 months (NSSI, 2016). In reality, however, many employers insure their employees on a minimum wage to avoid social insurance contributions, which drastically reduces the amount of compensation in case of a job loss. Statistics show that around 20% of the unemployed receive insurance benefits of up to €100 per month, 31% receive a benefit of up to €250, 49% receive up to €800 (NSI, 2017b). By and large, unemployment in Bulgaria bears with it a high risk of status loss and even social exclusion. In our data, 52% of the unemployed belong to the low-income group in 2014.

Employment security and unemployment risk are unevenly spread over the labour market. In general, the Bulgarian labour market is highly segmented in two sectors: the first offers low-qualified unprotected employment, which often takes place in the shadow economy, and the second contains better protected, higher-qualified jobs, which provide better pay and opportunities for career advancement. Being employed in the latter segment enhances access to the middle- and upper-middle class.

In the higher-earning segment, many new jobs arise from the outsourcing of businesses from Western companies to the country, especially in the ICT sector. Bulgaria is an attractive outsourcing destination because of the relatively lower labour costs, its geographical and cultural proximity to Western Europe, and most importantly, its membership in the European Union. The foreign companies generally offer salaries above the local average and better career opportunities. In the public sector, jobs with comparable levels of qualification offer less attractive salaries,

although the job security is generally higher. Examples for this are teachers and employees in the public health sector.

Figure 5 shows how income strata and unemployment are distributed across different occupational groups for the period 2011 - 2015.



**Figure 5: Type of employment per income class**

Source: EU-SILC 2007-2015, weighted, own calculations, n=42,343.

The figure shows that high-skill white-collar workers have considerable chances of belonging to the middle-income and the high-income group. ICT professionals have the highest chances of belonging to the high-income group. More than half of the respondents in this occupation receive a household income of more than 200% of the national median disposable household income. Teachers (a typical public sector job) have the lowest chances of belonging to the high-income group among high-skilled white-collar workers.

Health professionals (another traditional occupation in the public sector) have a bigger share in the high-income tier, possibly due to the growing number of private providers in the health sector. Science and engineering professionals (an occupational group that was somewhat left behind in the course of deindustrialization in the 1990s and the uptake of the service sector) show the highest unemployment rate among high-skilled professionals. On the other hand, one-third of this group belongs to the higher-earning households.

At the lower levels of the occupational ladder, personal care workers (e.g. child-care workers, institution-based and home-based personal care workers, excluding nurses) have lower chances for a middle-class position compared to other low-skilled white-collar workers. This is most probably due to the relatively bigger share of care workers in the public sector compared to other low-skilled white-collar occupations. Smaller shares in the middle class are observed also among skilled agricultural workers and skilled workers in building and related trades. The latter also show a

very high unemployment rate, which might be related to the high prevalence of informal employment in this occupation.

Overall, the middle class is well represented across very different occupational groups. However, belonging to the lower segments of the labour market is associated with higher risks of unemployment and low income. Remarkably, this is not only the case for the lowest tier of the labour force of unskilled workers, but also holds true for high-skilled blue-collar occupations. The share of the latter group in the low-income class, 33%, is substantial. This might be due to the lower demand for such labour, as a result of the collapse of many industrial and agricultural enterprises in the course of privatization in the 1990s.

### Social mobility

Social mobility is important in every society; the possibility to move up the social ladder motivates individuals and their families for long-term investments in education and work. Table 1 shows the level of individual upward- and downward mobility in different social strata for three time periods.

**Table 1: Income group transitions**

Probabilities for remaining in and changing income groups for three periods, in percentages. Source: EU-SILC 2007-2014 and own calculations, weighted, n=19,098. The dark grey areas represent downward mobility (i.e., a transition to a lower income group).

	Low-income group	Middle-income group	High-income group
<b>2006 - 2007</b>			
Low-income group	69	30	1
Middle-income group	20	72	8
High-income group	5	54	41
<b>2008 - 2009</b>			
Low-income group	77	22	1
Middle-income group	16	81	3
High-income group	2	46	51
<b>2010 - 2011</b>			
Low-income group	74	25	0
Middle-income group	14	80	6
High-income group	2	41	57

During all three periods, 70% to 80% of the individuals with a middle-income status were in the same income group three years later. However, the remaining part of this group experienced more downward than upward mobility. Around 20% of the individuals who were in the middle-income group in the period 2006–2007 belonged to the low-income group three years later, which is very possibly related to the outbreak of the financial crisis in 2008. In more recent periods, the incidence of

downward mobility in the middle class declined. Upward mobility, however, did not increase.

Intergenerational mobility is another important indicator of the openness of the social structure. Using data from the European Social Survey, Eurofound (2017c) compares intergenerational mobility patterns across the member countries of the European Union. Examining absolute mobility for three cohorts born respectively between 1927 and 1946, 1947 and 1964, and 1965 and 1977, Eurofound (2017c) shows for Bulgaria that, in earlier cohorts, men as well as women experienced more upward than downward mobility. For the latest cohort (born in the period 1965–1977) this pattern has changed, meaning that, in absolute terms, this generation could not surpass their parents on a socioeconomic standard. This indicates a slowdown in social progress resulting in fewer opportunities for social advancement. In terms of relative mobility, an indicator for the “fluidity” or the fairness of a society, Bulgaria has experienced a slight decline. Across generations, the relative chances of individuals of different social origins to move across social strata have decreased. This pattern is also found for intergenerational educational mobility. Empirical findings show that the strength in the association between the educational attainment of parents and children doubled between 1995 and 2001 (Hertz et al., 2007).

The lack of opportunities for upward mobility—and particularly, the risk of downward mobility—are drivers of emigration out of the country, especially among the younger population. However, this process is twofold. The young and well-educated are the potentially advancing and upwardly mobile individuals. When they leave the country, lower overall levels of upward mobility within the country should be observed. This “brain drain” also hampers social and economic development, which further reduces opportunities for upward mobility.

### **Generational issues**

Age is one of the factors that lead people to fall out of the middle class. After retirement, even people who had exercised a profession requiring higher education fall into a situation marked by low income and dependence on financial help from their children. The reason is the low level of pensions. In 2010, the monthly amount of retirement pensions varied between approximately €75 and €320 (Boshnakov et al., 2012). With that, Bulgaria has a comparably low salary-pension replacement rate (0.41 in 2015; see European Commission, 2017), meaning that pension income only inadequately replaces pre-retirement income. This results in a situation where the share of older people being middle class, 47% in 2014, is much smaller than the share of 60% for the working-age population (own calculations). Additionally, among EU countries, Bulgaria has the highest percentage of population aged 65 and above that is at risk of poverty and social exclusion (European Commission, 2017).

The cause for the low level of pensions in Bulgaria is the country's low GDP, given that the state budget makes a large contribution to the pension fund. Another reason is the unfavourable demographic structure, which poses considerable challenges to the public social insurance pension system (Asenova and McKinnon, 2007). Due to population aging and extensive emigration, the old-age dependency ratio (the number of elderly people as share of the population in working age) is considerably high (30.2 in 2015; see Eurostat, 2016).

### **Regional differences**

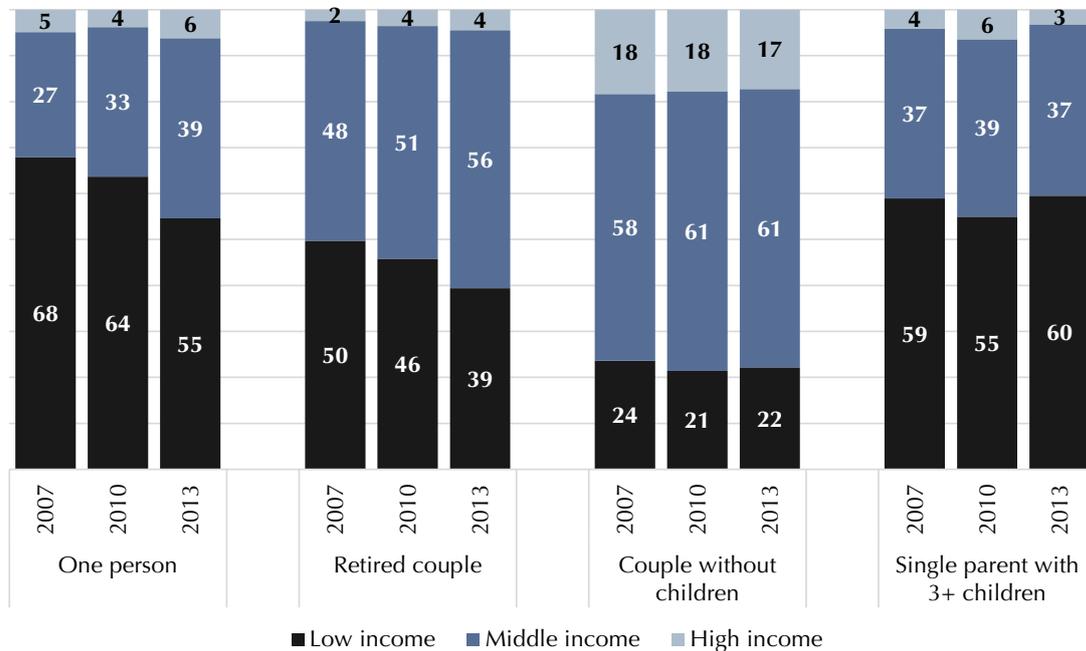
The differences in socio-economic conditions between cities and villages are large. In thinly populated areas, only 48% of the people have a middle class income in 2014, as opposed to 59% for densely populated areas. The thinly populated areas have also seen the largest decrease in the middle-income group, suggesting a trend of people from middle-class households moving to urban areas or abroad. Additionally, the share of the low-income group has been increasing and the share of the high-income group has been decreasing since 2014.

The North-West region and certain districts in north-eastern and southern Bulgaria show the lowest degrees of urbanization, the highest shares of elderly people in the population and the biggest population declines due to migration (see IME, 2016). In these parts of the country, also the most unfavourable socio-economic conditions can be observed. In 2015, the unemployment rate in certain northern districts was almost twice as high as the Bulgarian average of 9% (for example, 18% in the Vratsa district, 19% in Vidin, 22% in Silistra; see IME, 2016). These districts are also marked by low levels of foreign investment and poor infrastructure. With that, the gap between these districts and the richer south-western and eastern parts of the country is big. In 2015, the richest capital district of Sofia had a GDP which was 4.2 times bigger than the GDP of the poorest district Silistra.

A positive trend toward the reduction of regional differences is the development of suburban zones with single-family houses in rural areas in close proximity to larger cities. After the collapse of Communism, this process intensified, both in Bulgaria and in the other post-communist countries. It first encompassed the high-income class and gradually extended to the middle class. After years of uniform consumption and the limiting of housing to homes acquired through the communist state's authority, the possession of a house was one of the freedoms that members of the middle class turned to (Stanilov, 2007).

### Household composition

Figure 6 shows the percentages of households belonging to each of the three income classes—both over time and over household composition.



**Figure 6: Household composition per income group over time**

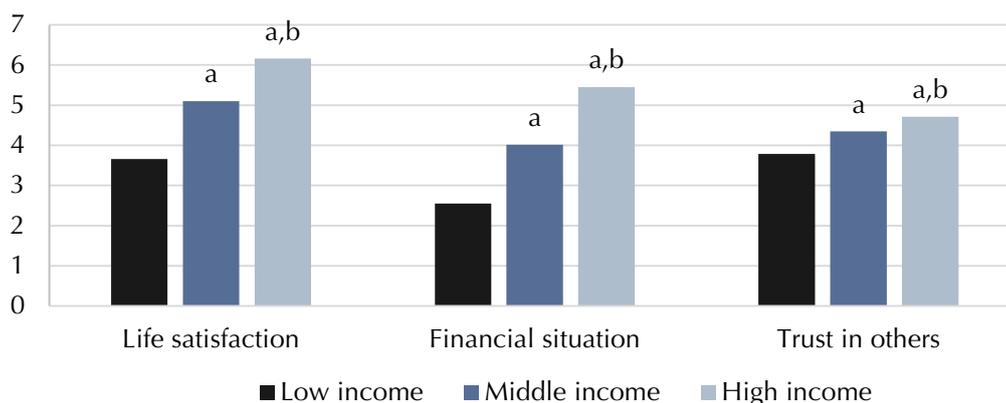
Source: EU-SILC 2007-2015, weighted, own calculations, n=105,451.

From Figure 6 we observe that single-person households and older households without children are increasingly part of the middle class. For single-person households the share increases from 27% to 39%, but is still lower than the overall share of 56% that is middle-income class. Further analysis suggests that this increase might be due to an increase in the share of younger individuals among people living alone. For older households without children, the share of the middle class increases from 48% to 56%. However, its share of the low-income group remains high.

Especially problematic is the situation of single parents and households with three or more children. Only 37% of these households belonged to the middle class between 2012 and 2014, while 60% had a low-income status. The reason for the high prevalence of low-income households among the families with more than two children is not the household type *per se*. Dimitrova (2012) shows that women from ethnic minority groups, especially Roma women, as well as low-educated women, have considerably higher chances for a second and third child. In contrast, women with higher education tend to postpone the birth of the second child and rarely have a third child. In sum, the relatively low education and higher chances for unemployment of mothers with more children, but also the mother's ethnic background, as far as it is highly correlated with education and employment status in Bulgaria, are responsible for the lower share of the households with more children in the middle class.

### 3. Household perceptions

The Bulgarian middle class and the Bulgarian society as a whole seem to be less satisfied with life than are their counterparts elsewhere in the EU. In 2013, Bulgaria showed the lowest level of life satisfaction across EU countries (Eurostat, 2015). Although this satisfaction varies somewhat across income classes, it remains at a relatively low level in each class (see Figure 7). The average life satisfaction of the middle class is still far below the EU average of approximately 7 points on the 11-point scale. Remarkably, the same holds true for the high-income class.



**Figure 7: Life satisfaction per income group**

Source: EU-SILC 2013, own calculations, weighted, n=8,567. a: significantly different from low-income group, b: significantly different from middle-income group.

An important reason for the low levels of subjective well-being of the Bulgarian middle class can certainly be found in the objective socio-economic conditions under which the middle class lives. The median household income is still comparatively low, and many households are financially constrained in terms of consumption and affordability of dwelling costs. These financial constraints are also reflected in subjective measures of the financial situation of the households. For middle-class households, the satisfaction with the own financial situation amounts to 4 points on average, and is below the middle of the 11-point satisfaction scale. Furthermore, a comparison with other EU countries reveals that, within the EU, Bulgarians are on average the least satisfied with their financial situation (Eurostat, 2015).

As known from the vast literature on subjective well-being, the way individuals perceive and evaluate their situation does not result from the assessment of their absolute circumstances, but is due to a relative comparison of their own standing to that of others (Easterlin, 2001). That is, people are more or less satisfied not because they have *a lot* or *a little*, but rather because they have *more* or *less*. From this perspective, one important driver of the low satisfaction of Bulgarians might be that they increasingly compare their socio-economic standing with that of the wealthier

societies in Western Europe. The process of globalization, the presence of international media, the increased possibilities to work, study and travel abroad, and most importantly, the accession of Bulgaria to the EU, have certainly contributed to this process. This could also explain the finding that even the members of the high-income class in Bulgaria (who are per definition better-off than the vast majority of the country) have considerably lower average levels of life satisfaction and satisfaction with their financial situation, compared with their counterparts elsewhere in Europe.

Social trust is another important aspect of people's perceptions. Its measure is instructive for the quality of social interactions, the level of social cohesion and the existence of tension and conflicts in society. Social trust is assessed by the question, "Would you say that most people can be trusted?", and the responses show that Bulgarians from different social classes have little trust in others. This has to do with the high level of corruption in the country and the general dissatisfaction of Bulgarians with the political classes. In the following section we discuss these topics in greater detail.

#### 4. Political representation

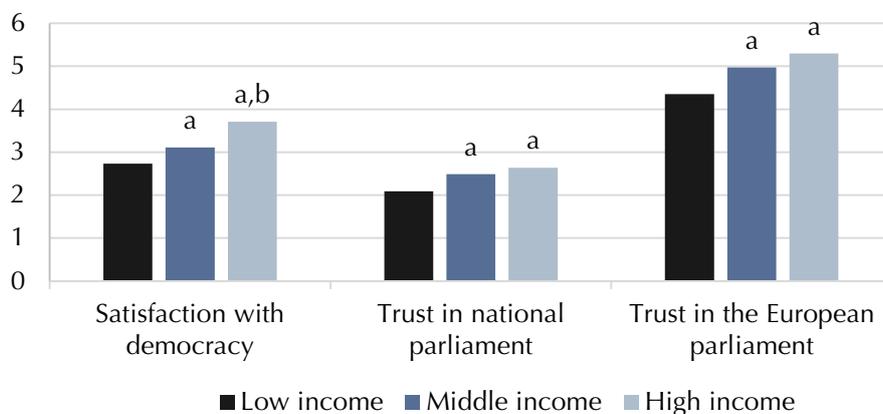
After the collapse of Communism, many Bulgarians, who had hoped for a better future in a stable and prospering democratic society, were left disappointed with the outcomes of the transition process. Although the country registered considerable economic improvement and was accepted to membership in the European Union, many political, social and economic problems remain unsolved. One such problem is the widespread corruption in the country.

According to the Corruption Perception Index for 2016, Bulgaria is considered to be the most corrupt country within the EU (Transparency International, 2017). Not only the private sector, but also major institutions of the state are affected—in the first place the judiciary and the law enforcement bodies, such as the police (Transparency International, 2011). This has negative effects on the economy and the society as a whole. First, the prevailing corruption and nepotism undermine economic growth through misgovernment, tax evasion and inefficient public spending (Rothstein, 2011).

Second, corrupt practices directly foster social inequalities by enabling particular groups to gain economic advantages and power. Especially in the course of privatization in the 1990s, many members of the former regime managed to translate their political power into economic power in this manner. Third, the spread of corruption is closely linked to the rise of organized crime (Shentov et al., 2007). Overall, this makes for a situation of general dissatisfaction, mistrust and uncertainty.

As demonstrated in Figure 8, the dissatisfaction of Bulgarians with politics is common for all social classes. On average, all three income groups express low

satisfaction with the current state of democracy in the country. All classes place little trust in the National Parliament. In contrast, trust in the European Parliament is as twice as high for all classes, compared to the trust in Bulgaria's own parliament.

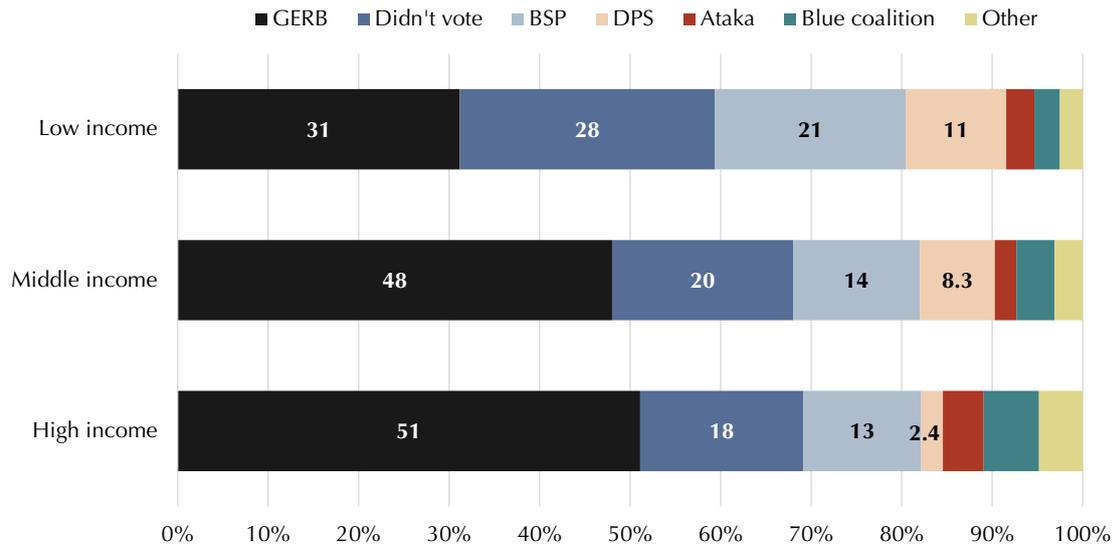


**Figure 8: Trust in political institutions**

Source: Round 5 of the European Social Survey (ESS), collected in 2010. Weighted, own calculations, a. significantly different from low-income group, b. significantly different from middle-income group. The low-income group is the lowest decile of disposable income. The high-income group is the highest decile. All other respondents belong to the middle-income group. The resulting class distribution roughly corresponds to the class distribution observed in EU-SILC for 2010.

In a context of general political dissatisfaction, the risks not only of political disengagement, but also of populist parties gaining support, are high. This leads us to assess the voting behaviour of Bulgarians, by analysing self-reported political choices in the parliamentary election in 2009 (Figure 9). It should be noted that the self-reported voting behaviour does not fully correspond to the actual outcome of the vote. The share of self-reported votes for the winning party is higher than the actual outcome, and the non-voting share is smaller than suggested by the actual turnout. Apart from this pro-winner bias, the self-reported vote choice proportionally matches the outcome of the election.

The winning party in the 2009 parliamentary election was "Citizens for European Development of Bulgaria" (GERB). It is a centre-right political party, established in 2006. In the European Parliament, the party is part of the European People's Party-European Democrats Group. As shown in Figure 10, GERB was the most successful in attracting voters from different social strata and received significant support from the middle class. 48% of the middle class reported having voted for GERB. In contrast, only 31% of the low-income group reported having chosen this party.



**Figure 9: Self-reported voting by income group**

Source: ESS Round 5, weighted, own calculations, n=1,760.

Class differences can be also observed in the self-reported support for the Bulgarian Socialist Party (BSP), a successor of the former Communist Party. 14% of the middle-income group and 13% of the high-income group reported having supported this party. In the low-income group, this share is 21%. BSP is the leading party on the centre-left side of the political spectrum. In the European Parliament, it is part of the Party of European Socialists. Nevertheless, its openly pro-Russian agenda often contradicts EU objectives and policy lines.

ATAKA (Attack), an ultranationalist right-wing party with racist (especially anti-Roma and anti-Muslim) viewpoints, won 9.4% of the vote in 2009. In the European Social Survey (ESS), the support for this party is misreported. Within the middle class, only 2% of the respondents reported having voted for ATAKA. Surprisingly, this share is bigger within the high-income class.

With respect to voter participation, the data from self-reports does not suggest that the middle class is politically disengaged. Only 20% of the middle class reported that they did not vote in the 2009 election, as opposed to 28% of the low-income class.

In the last parliamentary election in March 2017, GERB again won the biggest share of the votes (33%), followed by BSP (27%) and the United Patriots (9%), a nationalist alliance formed by Attack, the National Front for the Salvation of Bulgaria (NFSB) and the Bulgarian National Movement (IMRO). However, due to the 4% electoral threshold, some parties which explicitly target the middle class have remained unrepresented in the national Parliament. These are the Reformist Bloc, New Republic, "Yes, Bulgaria!" and the Greens. What these parties share are democratic and pluralist right-centrist views, a strong pro-EU position, and an agenda that stresses the importance of the rule of law and the fight against corruption. Together, the four

parties received around 300,000 votes. “Yes, Bulgaria!” did rather well in Sofia, where it emerged as the third largest party.

Political scientists pose the question of why the right-centrist political formation represented by the Reformist Bloc, New Republic, “Yes, Bulgaria!” and the Greens did not succeed in entering the current parliament. According to some, the problem is that these formations were not able to gain the confidence of the local communities in rural areas (Kolarova, 2017). That is why the vote for these parties was limited to the capital and some large cities in the country. In fact, the limited possibility for growth of the middle class in small settlements and poorly developed regions (like the North-Western region) leaves a wide field for populism and support for the Socialist Party and is a major obstacle to the stable political representation of the middle class.

## 5. Globalisation, technology and migration

Three global trends that will affect all European countries in the near future are migration, globalization and technological change. Important challenges for the middle class in Bulgaria will stem from these trends as well.

The emigration of well-educated Bulgarians of working age results in limited possibilities for growth of the middle class. This so-called “brain drain” hampers economic development, which further fuels emigration. Reverse migration is a desired future change. However, empirical findings show that although the numbers of emigrants returning to Bulgaria have been rising in recent years, the profile of the returnees is mostly that of lower educated people (Zaiceva and Zimmerman, 2012). The creation of new jobs, the start of new businesses and a higher quality of employment are essential for limiting emigration and accelerating further reverse migration, especially of the better educated. The promotion of initiatives that help returnees to (re)integrate in the Bulgarian labour market might also prove helpful in this respect.

In Bulgaria, as elsewhere, the people who benefit the most from globalization and technological change are the well-educated young, possessing skills that are in demand. People over the age of 50 and those with few qualifications will have a hard time adjusting economically. Higher investments in education and more opportunities for life-long learning and on-the-job training would counteract this development. This is an area where Bulgaria could improve greatly.

The economic opportunities for strengthening the middle-income class lie in the overall growth of the economy. In this respect, a further integration of Bulgaria into the EU and its stronger cooperation with the member states are of great importance. The linking of the country to Europe—for example, through transport and energy supply—would accelerate trade and attract foreign direct investment. This would

facilitate economic growth and modernization and help the country to cope better with the challenges of globalization.

## 6. Conclusion

This chapter showed that while the middle-income class comprises a large part of the Bulgarian population (around 56% in 2014), the middle-income group—in socio-economic terms—still falls short of fulfilling what the term “middle class” implies. The median household income of the middle-income group is relatively low. Almost half of the middle-income households report that they cannot afford unexpected expenses, a finding which suggests that the amount of discretionary income is insufficient. The opportunities for upward mobility are limited—only a small proportion of the individuals with middle-income position obtain a higher status some years later.

The middle class in Bulgaria is not only weak but also disappointed—not the least when it compares itself with the prosperous middle class in Western European countries. This is mirrored in a low average satisfaction with life and a low satisfaction with the own financial situation. The widespread corruption and nepotism in the country as well as the growing social inequality provide other reasons for the dissatisfaction of many members of the middle class. These issues not only lead to low levels of trust in the political institutions, but also generate a low-trust environment in which most people do not trust others.

Another main characteristic of the Bulgarian middle class is its uneven representation across the country. In rural areas, the poor healthcare, education and transport infrastructure, as well as the lack of employment opportunities hinder the development of a large and stable middle class. Lagging furthest behind is the North-West region. The South-West region, in contrast, is developing quickly and dynamically in economic, demographic and cultural terms. It includes the capital, Sofia, which absorbs the greatest part of the country’s investments and is home to a large part of the country’s middle class. The economic and human capital gap between the capital and the rest of the country is a major obstacle for the growth of the middle class.

Nevertheless, a look at the developments over the last ten years suggests a positive trend towards improvement and strengthening of the socio-economic standing of the Bulgarian middle class. Although still low, the median income of the middle class has been increasing during the last years. In terms of consumption indicators, a larger share of the middle class is now better off, compared to the situation before the financial crisis.

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