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The Sadness of Bulgaria

Hernando Zuleta¹
Maria Draganova²

Abstract

There is a significant positive statistical connection between GDP per capita and the satisfaction rate. However, Bulgaria, being a middle income economy, is one of the saddest places on Earth. We try to identify possible reasons for this phenomenon and we put forward some policy implications. The evolution of fertility rates, income per capita and income distribution during the democratic era help to understand the Bulgarian sadness.

Key words: Happiness, Prospect Theory, Relative Consumption, Communism

JEL Codes: D01, D31, D69, J11, J13

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La Tristeza de Bulgaria

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Maria Draganova⁴

Resumen

En general la satisfacción de los individuos de una sociedad es mayor cuanto mayor sea el ingreso per cápita. No obstante, Bulgaria, siendo un país de ingresos medios, es uno de los lugares más tristes del planeta. En este artículo tratamos de identificar las causas de este fenómeno y aventuramos algunas implicaciones de política. La evolución de la tasa de fertilidad, el ingreso per cápita y la distribución del ingreso a partir de la era democrática ayudan a entender el fenómeno de la tristeza búlgara.

Palabras Clave: Felicidad, Teoría del Prospecto, Consumo Relativo, Comunismo.

JEL Codes: D01, D31, D69, J11, J13

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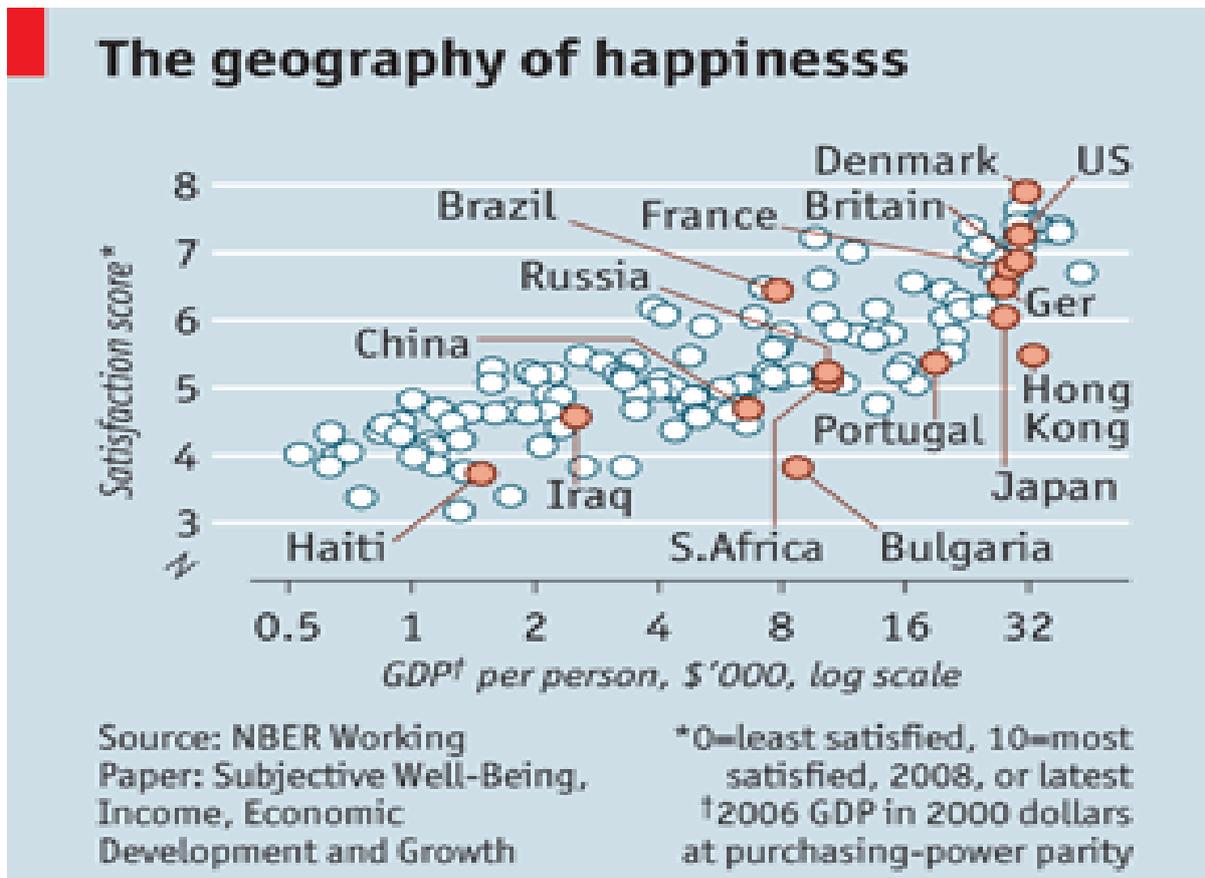
1. The Problem

People want and need things to stay alive and to make that life more enjoyable. Satisfaction is the economic term that captures the process of fulfilling wants and needs. In order to measure life satisfaction scholars use surveys. People are asked to rate their general satisfaction or their feelings about their own life.

According to available empirical evidence, there is a significant positive statistical connection between GDP per capita and the satisfaction rate. However, in a recent survey by The National Bureau of Economic Research (USA) it was found that Bulgaria is the saddest place on Earth relative to income per person (Sacks, Stevenson and Wolfers, 2010).

Exhibit 1, taken from *The Economist*, plots the satisfaction rate against GDP per person for a broad set of countries. The mentioned correlation seems obvious with one country being a striking exception – Bulgaria. Why are Bulgarians so miserable when they have higher incomes than several other nations? Even citizens of countries at war like Iraq or of places having suffered major natural catastrophes like Haiti are much happier. This paper will try to give some possible explanations to this puzzling result.

Exhibit 1

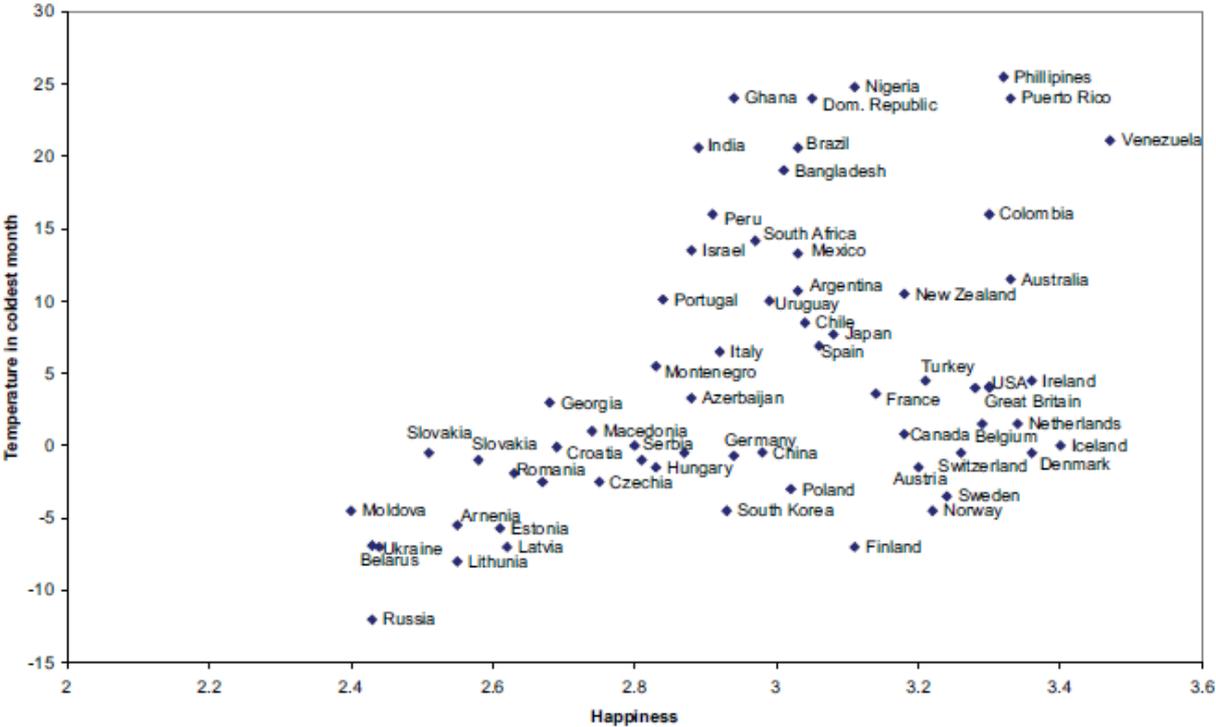


2. Geography, Health, Population and Happiness

Most of the countries with high satisfaction scores are West-European and North American with the Portuguese being more miserable than expected as Exhibit 1 shows. Asians are also less happy than their incomes would suggest, ex-Soviet countries are quite gloomy and Latin Americans are the most satisfied people. These results could lead one to believe that there is a positive relationship between the average year-round temperature in a country and the happiness of its citizens. This is the case presented by Rehdanz and Maddison (2005). Their study shows that "...higher mean temperatures in the coldest month increase happiness, whereas higher mean temperatures in the hottest month decrease happiness." And exactly this is the case of Bulgaria which experiences cold winters and very hot summers. The two authors have used data from reported levels of happiness from the World Database of Happiness for a sample of 67 countries. The results in Exhibit 2 confirm the existence of a positive relationship between air temperature and levels of happiness. Countries where the temperature in the coldest months varies between 20° C and 30° C exhibit the highest levels of happiness. Examples of such countries are Puerto Rico, Venezuela, Brazil and Nigeria. On the other hand, countries like Russia, Belarus, Moldova and Ukraine which experience very cold winters also have very low levels of happiness varying around 2.4.

Rehdanz and Maddison build other models in order to test the relationship between other variables and the level of happiness. As expected, their regression analysis shows that there is a significant positive statistical connection between GDP per capita and the satisfaction rate. They also explore the link between health and happiness using life expectancy as an example of a nation's health status and find out that being healthy greatly improves one's happiness. According to the CIA World Factbook the average life expectancy for a Bulgarian at birth is 73.6 years which is higher than 66.3 years for Russia but lower than the average of 74.6 years for Colombia. Additionally, they conclude that a country's overall level of happiness increases together with an increase in the proportion of population under the age of 15. Other variables such as inflation, level of unemployment, personal freedom, population density, urban population and latitudes do not affect significantly the level of happiness. Finally, in their paper the two authors also confirm the observation that Eastern European countries and most notably Bulgaria tend to be the unhappiest places in the world while the most satisfied people are those living in Latin America and Western Europe.

Exhibit 2



In order to apply some of the propositions presented by Rehdanz and Maddison, we will explore the development of Bulgaria’s population. From Exhibit 3 it can be observed that the total number of citizens generally has been varying between 7.5 and 9 million people for the period 1961-2010. From the year 1961 Bulgaria’s population was increasing until it reached its peak of almost 9 million people in 1985 when the natural change reached 0 and has been decreasing ever since then because of the large number of emigrants and the low birth rate. According to the latest census, the number of people living in Bulgaria is around 7.4 million. The graphs from Exhibit 4 show in greater detail the reasons for the decreasing population. Ever since 1950 the crude birth rate has been falling with slight peaks in the 70s thanks to the good economic conditions and governmental efforts to stimulate the number of births. Ever since the political and financial collapse in 1996 the birth rate has been increasing but it is still far from its levels in 1950 and not able to cover up the death rate leading to a negative natural change. Referring to Rehdanz and Maddison, a possible explanation to the sadness of Bulgarians is the decreasing proportion of the population under the age of 15.

Exhibit 3

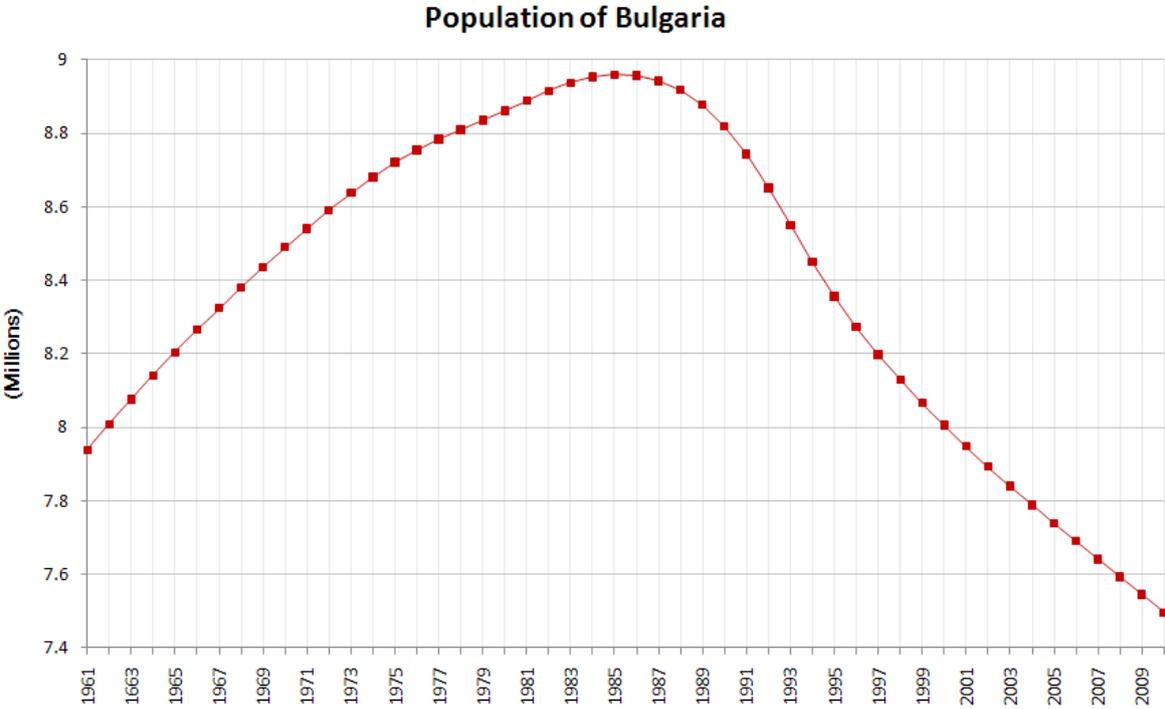
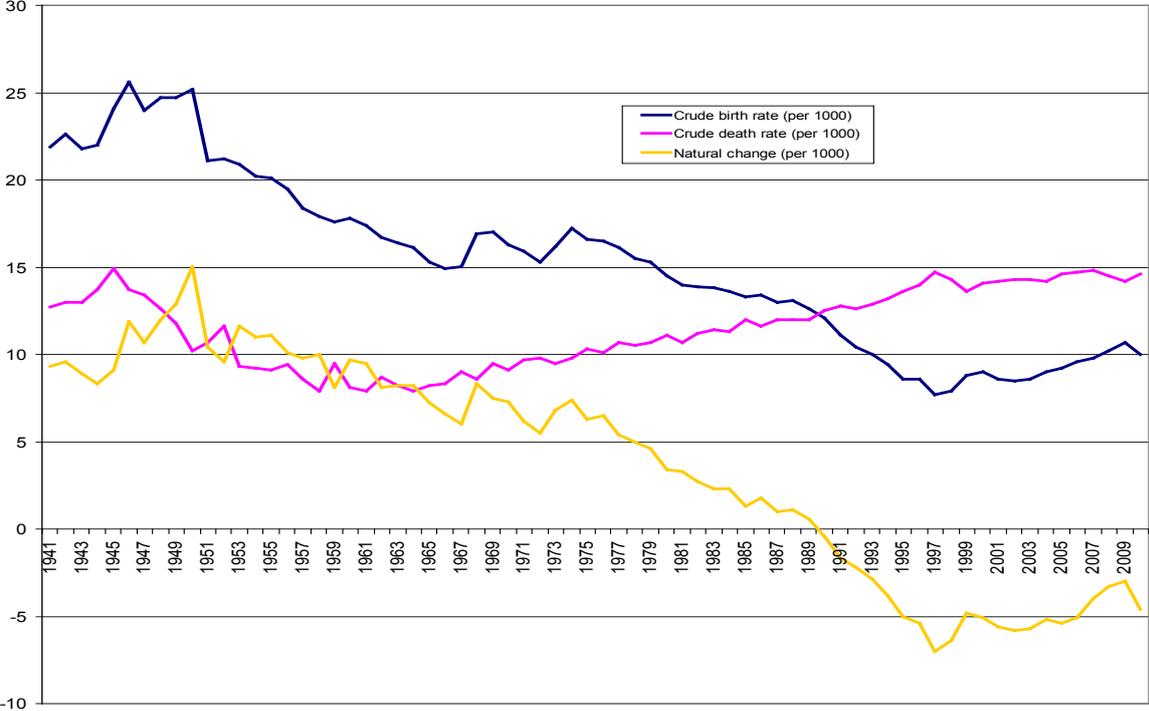


Exhibit 4



3. Losses, Inequality, Fairness and Happiness.

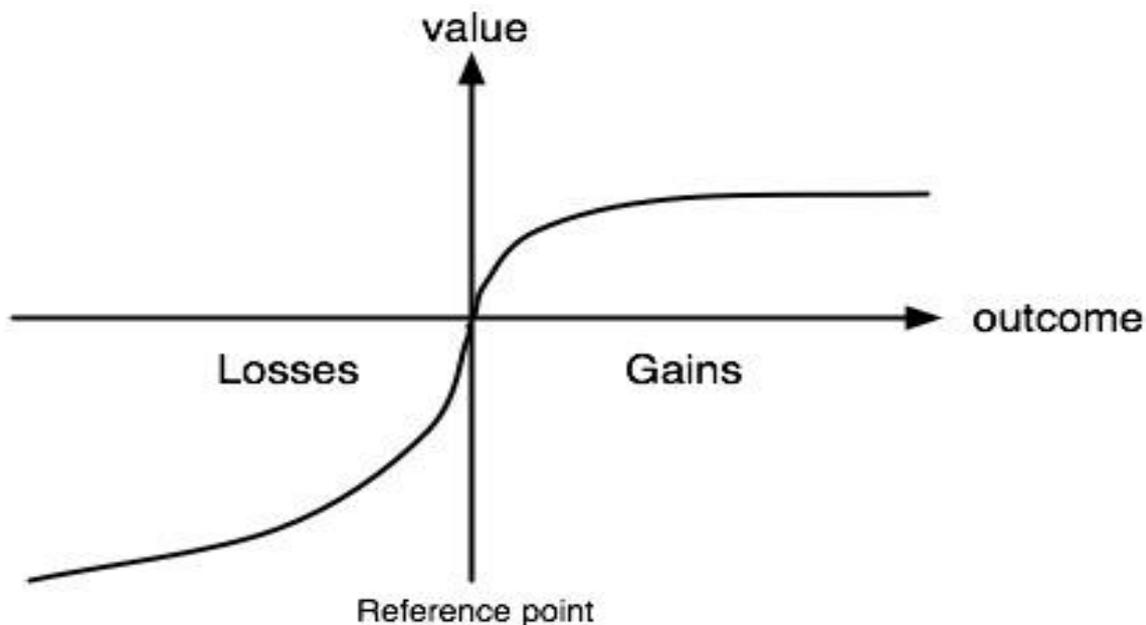
Traditionally, economic theory relates satisfaction and consumption assuming that the utility of an individual depends on his/her consumption. However, Duesenberry (1949) presents The Relative Income Hypothesis which states that for an individual the relative income compared to those of other people is much more important than regarded only in absolute terms: "The strength of any individual's desire to increase his consumption expenditure is a function of the ratio of his expenditure to some weighted average of the expenditures of others with whom he comes into contact." This type of behavior is the so-called "keeping up with the Joneses".

Of course, if The Relative Income Hypothesis is correct then inequality is detrimental to happiness. Alesina, Di Tellab and MacCulloch (2003) explore the link between inequality and satisfaction in the paper "Inequality and Happiness: are Europeans and Americans Different?" They study the effect of inequality on personal well-being and find out that inequality in income levels between members of a society in Europe tends to lower personal happiness while there is not such a strong correlation between the two for US residents. A possible explanation for this phenomenon is that Europeans live in a less mobile society where once you become poor you are more or less going to remain poor while Americans can easily move up and down the income ladder. Exactly this is the case for Bulgarians who believe they live in a society with limited social mobility and feel hurt by income inequality. Another interesting result is that leftists in Europe oppose inequality more than people with other political beliefs. Relating this fact to our country of research, it is not surprising that Bulgarians are so miserable since socialists ruled the country for the period 1946-1989 and there are still many supporters of an equal society especially among the population of age above 65. Furthermore, Alesina, Tellab and MacCulloch have found out that rich Americans are much more concerned about income inequality than are poor residents of the US. However, when doing the same research in Europe they found out the exactly opposite result – the poor are strongly affected by income inequality.

These are all very convincing explanations of the sadness of Bulgarians since according to a research done by economists from the Bulgarian Institute of Sciences between 60% and 70% of the population falls into the category of the poor. Casual observations may help to illustrate the importance of The Relative Income Hypothesis for the link between inequality and happiness. Bulgarians, in general, like to compare themselves to other people and their achievements. Moreover, anybody who is successful and rich in Bulgaria is regarded to be some sort of a crook. This envious mentality certainly depresses happiness and harmony among the population.

Another theoretical tool which can be useful to understand the Bulgarian case is The Prospect Theory developed by Kahneman and Tversky (1979). They argue that it is the change in welfare rather than the final income that is important to consumers. This is quite contrary to the propositions of The Expected Utility Theory in which rational agents are indifferent to the incomes of others. The proponents of The Prospect Theory argue that the individual cares both about absolute and relative wealth. Kahneman and Tversky also study people's loss aversion behavior and utility functions. They agree on the fact that both gains and losses exhibit diminishing marginal utility (see Exhibit 5). They also stress the fact that "...losses loom larger than gains." This means that people feel more hurt when they lose a certain sum of money than what they gain by obtaining the same amount. As a result, the value function for losses is steeper compared to the value function for gains.

Exhibit 5



The patterns of income inequality and GDPpc for Bulgaria are explored in Exhibit 6 in more detail. For the period 1990-1994 income inequality was rising until it reached its peak of 35 presented by the Gini coefficient. During this time GDPpc fell by 11% and then rose again. For the period 1995-1997 which was connected with political and financial hardship in Bulgaria GDPpc decreased by another 13% and all together for the period 1990-1997 it fell by 16%. From then until the year 2000 GDPpc increased substantially but it was still lower than its original level in 1990. The same negative trend holds for the Gini coefficient which was higher than its level in 1990 exhibiting higher deviations in income. The patterns of income inequality and GDPpc for Bulgaria are explored in Exhibit 6 in more detail. Exhibit 7 gives more up-to-date information and shows an increase in GDPpc up to more than 9000 dollars (current price level). However, the Gini coefficient is still higher than its original level in 1990. This fact can explain why Bulgarians are so miserable even though their incomes are not that low.

Exhibit 6

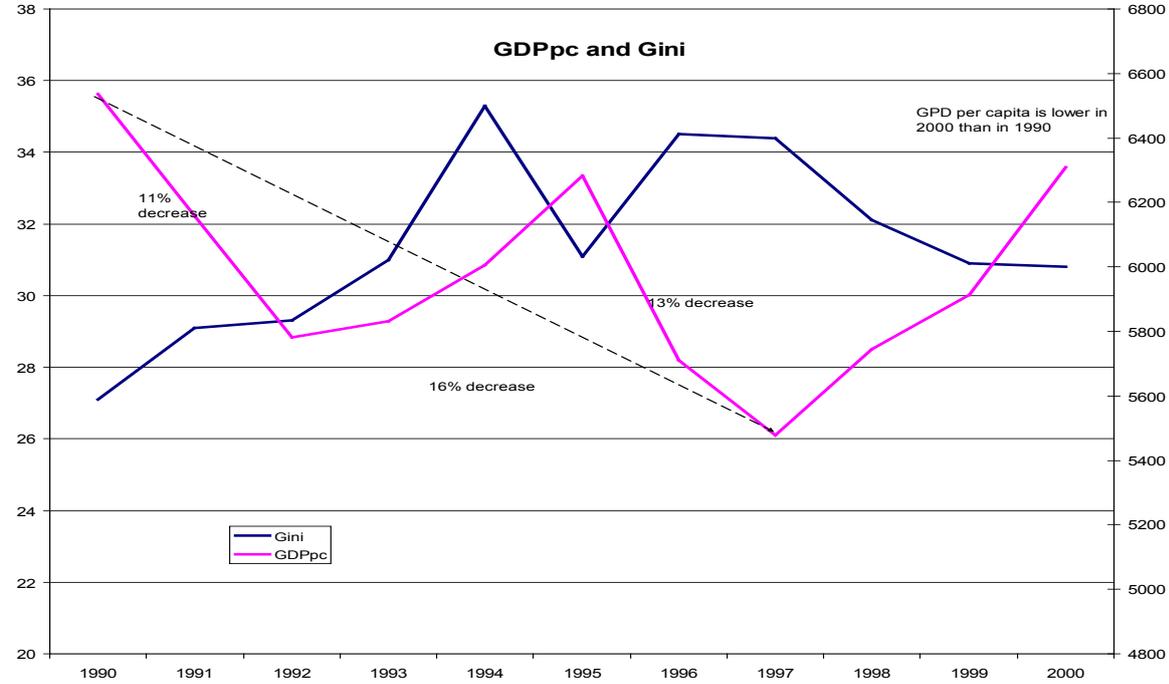


Exhibit 7



Summing up, with the recession of the 90s inequality increased and, as a result, Bulgarians lost utility because of the decrease in income and due to the fact that they think that they are hurt when others gain in consistence with The Relative Income Hypothesis. Now, the recovery is not enough to compensate for the previous losses because, as The Prospect Theory suggests, the negative effect of the recession is higher than the positive effect of the upturn and, on top of this, the recovery does not seem to reduce inequality. This comes together with a sense of unfairness and the average Bulgarian keeps asking “Why are they so rich?” Most of the time Bulgarians envy the so-called “mutra,” who are people doing illegal business, people from the ex-secret services and politicians. Often, however, there is also hatred towards decent people who work a lot and are successful entrepreneurs.

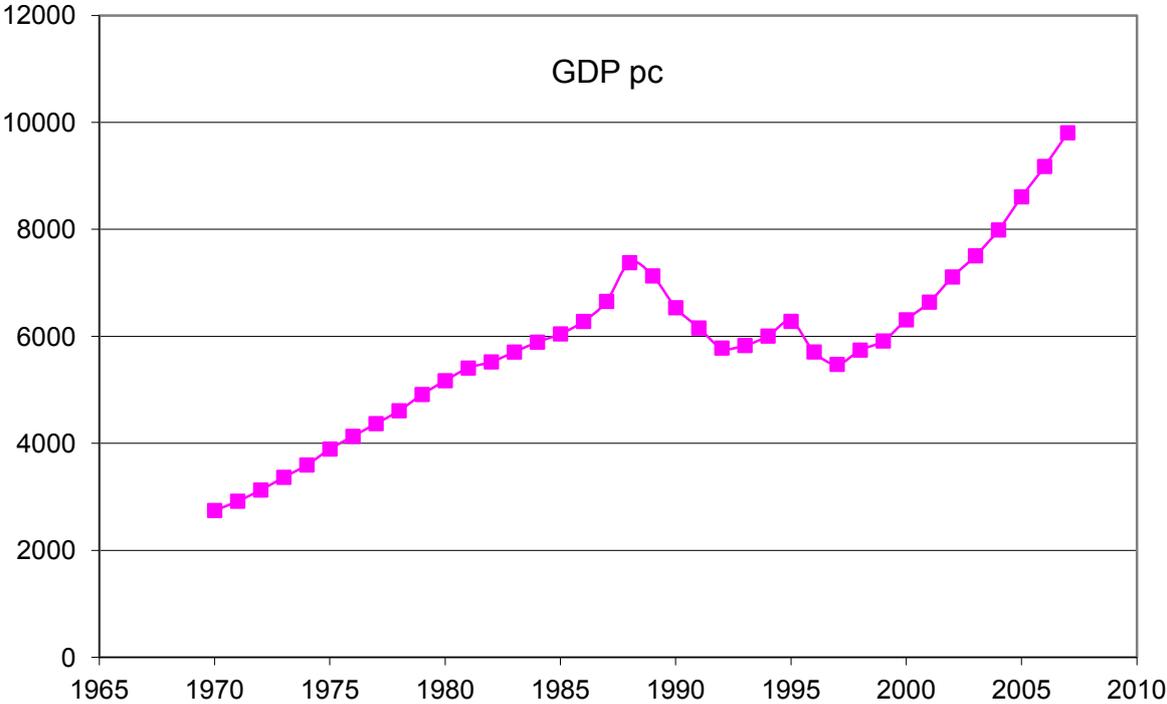
Another important factor is the change in the demographic structure. Nowadays fewer and fewer young people live in Bulgaria because of the decrease in fertility rates but mainly because of the high emigration since the 90s. According to estimations done by The National Statistical Institute over 20, 000 people leave Bulgaria every year and with this tempo the population will fall to 5 million people in fifty years⁵. In 2011 75, 000 babies were born but because of the high mortality rate the statistic of negative natural change since 1990 still holds. There might be a self-selection bias making it difficult to determine the causes for the high rate of emigration but among them are the poor economic, educational, infrastructural, political and working conditions in the country.

4. History and Culture. Did Democracy Bring Happiness?

By becoming part of the Soviet Block in 1944 Bulgaria turned to communism. This marked a period of transformation for Bulgaria from a poor and mainly rural country into an industrialized and urbanized economic success. By the mid 1950s living standards rose and there was an end to political repressions. The results came quickly as Exhibit 8 shows. GDPpc increased more than two times for the period 1970-1990. As we stated before, the end of communism came together with a strong recession and a sharp increase in inequality. After two decades of prosperity the new economic conditions generated a big decrease in satisfaction and the feeling that past times were better. There are also, two cultural problems whose roots may be found in the times of communism: antipathy and fatalism. Regarding fatalism, probably it is linked to communism as a reaction to its anthropocentric and rationalistic outlook. Because religion was banned during communism, people had to look elsewhere for sources of spiritual support because the state is never enough to cover all human quests.

⁵ “NSI: 20 000 Emigrate Each Year from Bulgaria,” Business Post, 2008

Exhibit 8



As a result, Bulgarians are pretty inclined to believe in destiny, in the magic of crystals and in people who can tell them their future.⁶ Most important, however, they believe in conspiracy theories that other people dominate everything and are constantly trying to sabotage their well-being and always others are to blame. This means that there is nothing that they can do to improve their situation and they are doomed to be unhappy and poor. In these circumstances, there is no individual responsibility because individuals cannot change the things for the common good of the society. For example, even though most of the living areas are quite dirty, nobody takes any actions because everybody thinks: “Why should I do it? Isn’t that the responsibility of the government?” Also, very often Bulgarians try to evade paying taxes because: “These crooks will steal everything”, meaning the government. Unfortunately, this behavior ends up affecting the quantity and the quality of public goods in a very negative way.

Another important aspect is that civil and public servants, as well as clerks, are often hostile and, for this reason, transactions, purchases, official procedures, etc. end up being unpleasant. Maybe this behavior is related to the fact that during communist times and without a price system, servants had the power to administrate limited goods and services so they had the power to deny goods and services to some citizens. Under these circumstances a sale was almost a favor for the buyer. Today there is a price system but the old culture is still alive.

⁶ The most notable fortune-teller for many years has been Vangelia Pandeva Dimitrova, also known as Baba Vanga.

5. The Entrepreneurs' View

In a recent presentation for TEDx in Bulgaria entrepreneur Steve Keil⁷ mentions several disturbing facts about the current situation in the country.⁸ He starts by listing important categories for which Bulgaria occupies the last place in Europe. Those are (i) innovation, (ii) health care, (iii) reading, (iv) math and science, (v) percentage of entrepreneurs starting businesses, (vi) GDP per capita and (vii) perception that entrepreneurs provide benefits to society.⁹ These are all important factors for the well-being of people. Some explanations for these facts are that health care and education depend on public spending which is apparently very low. Entrepreneurs, on the other hand, are people who make money and here come the ill feelings of envy and unfairness.

Keil also mentions the article in *The Economist* that we already discussed that Bulgaria is the saddest place on earth relative to GDP per person. As a result, it is not surprising that 62% of the population is not optimistic about the future. According to him, all this is because Bulgarians do not value play and this has a negative effect on their behavior and mood. What he stresses on is the overall wave of pessimism and seriousness. Some causes for this “handicapped” behavior, as he calls it, are the 45 years of communism which stressed on the importance of the state over the individual. The regime also affected directly the perception about entrepreneurial activity. In fact it was actually suffocated by the desire to have a planned economy where the ruling party makes all the economic and trading decisions.

Another important aspect on which Keil stresses is firm culture. He says that the typical Bulgarian workplace is autocratic where the boss gives commands and expects his workers to obey them just because he is superior to them. Moreover, the typical employer is untrusting, controlling and restrictive which makes the employees feel unfulfilled and devalued. This type of relationship between workers and managers can explain why the typical Bulgarian is sad at the end of the day.

6. Policy Implications

What can the Bulgarian government do to improve the current situation? Even though regarding happiness the costs of a recession are higher than the gains of an expansion, there exists a clear correlation between income per capita and satisfaction. Therefore, policies designed to boost economic growth are likely to have positive effects on happiness. Additionally, in a stable economy without sharp reductions in income per capita the individuals are likely to be happier so the government and the central bank should try to smooth economic cycles.

Looking at the growth rates of Bulgaria for the last decade, it seems that the current government is doing a good job. Indeed, the tax system was reformed to stimulate growth, the labor market

⁷ Steve Keil is an entrepreneur based in Bulgaria. He has taught at the American College, written for various publications, and currently teaches at the University of Sofia.

⁸ “TEDxBG - Steve Keil - A Play Manifesto; YouTube.Com, 2011

⁹ It is important to mention that according to the World Bank, Bulgaria is a progressively growing economy and one of the most fiscally stable countries in the EU. In other words, even though in absolute terms the Bulgarian economy is not as rich and prosperous as other European economies, it grows faster than the rest of Europe and seems to be catching-up.

is quite flexible and the investment in infrastructure is impressive. However, economic growth alone will not do the miracle. As we stated before, inequality and the sense of unfairness are a big part of the problem. According to the data income inequality is not increasing but according to “the conventional wisdom” income distribution is unfair.

In order to tackle these problems, the government is making substantial efforts to tax the rich. On the one hand, the tax on luxury goods is paid by these people whose fortune origins are perceived as questionable and on the other hand the authorities are seriously investigating anyone who could be hiding any source of income. Maybe, the tactic should be to use the carrot and not only the stick. This means that instead of only punishing criminals and bad behavior and taxing luxury goods the government should also try rewarding good and exemplary deeds. In this way people will have the incentive to follow the law, work harder and enjoy their accomplishments. The ruling party should also try to make the tax-paying system more understandable to the people and show them where their money goes and how this improves the well-being of everybody. In other words, the government should convince the people that their incentives are aligned.

Spending more on education and health care is a good idea. Both sectors are very important for the personal well-being and development of Bulgarians and both are extremely lagging behind the current European level. In general, policies directed to increase economic mobility can have positive effects on happiness. First, because economic mobility can boost economic growth; second, economic mobility may reduce inequality, and third, economic mobility may reduce the feeling of unfairness related to inequality. In general, the government should provide better (and maybe more visible) public goods. A good example of such behavior is the current attempt of the ruling party to develop the metro transportation system in the capital city and the highways in the whole country. Another example is public space: Bulgaria has a very beautiful nature and a lot of public space so, in this regard, the only role of the government is just to ensure that it is clean and nice. Additionally, it would be helpful to give the right incentives to civil servants most of whom for the moment are rude, sometimes incompetent and seemingly disinterested to help people. The administrative system is important for any country as it helps the business run smoothly without burdening the process like in Bulgaria.

Last but not least, the government should invest in civic culture. If people are unsatisfied with something then they can work together in order to change it. If people do not litter parks and streets, follow the traffic rules and are respectful and sympathetic to others then they are all going to feel better.

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