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# Wealth defence strategies of Bulgarian Oligarchs in the 1990s

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## ABSTRACT

The rise of the ownership concentration has become a significant political and economic issue and one of the biggest policy questions in the newly forming democracies after the fall of communism in Eastern Europe. The so-called oligarchs have attracted great interest due to their influence in policy-making, whereby they pursued their own agenda. Much less systematic attention has been, however, devoted to how they do so. In this article, I use the concept of wealth defence to scrutinize the strategies of Bulgarian oligarchs for securing their fortune in the period between 1989 and 1997. This article reveals, contrary to the theoretical literature's assumptions, that in a country where the rule of law was lacking, the oligarchs did not resort preferably to an actual assumption of power by holding a state office. Since their property rights were weak, they re-insured their property by employing a different set of strategies to ensure risk diversification.

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## Introduction

In November 1989, the Bulgarian communist regime had collapsed, and the country found itself on the transition path towards democracy and a market economy. The transition process in Bulgaria, after long years under the communist regime, proved complicated and contentious. One of the fundamental problems of the Bulgarian transition was the lack of strong political leadership capable of adopting any systematic reform plan (Stanchev 2001; Dimitrov 2016). Due to the frequent cabinet changes, the new administrative regulations had been introduced very inconsistently (Muco 2001, 44), many laws were somewhat ambiguous and allowed more than one interpretation (Kalinova and Baeva 2010, 239). The uneven pace of the reforms led to a dramatic worsening of the economic situation (Dobrinsky 2000, 581), a remarkable upsurge of crime, and a feeble rule of law (J. Nikolov 1997). As a result, the crime rates reached abnormally high levels (Tzvetkova 2008), further diminishing the credibility of the state. Moreover, in 1996, Bulgaria was hit by a profound financial turmoil that ruined the banking sector and left the public finances seriously depleted (Dobrinsky 2000, 581). As Roland (2000, xix) accordingly

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puts it: 'If anything, the experience of transition shows that policies of liberalization, stabilization and privatization that are not grounded in adequate institutions may not deliver successful outcomes.'

The problematic transition also entailed a widespread transfer of state-owned assets into the hands of a small group of people (Daiyanu 2001, 92), often called oligarchs. As was true in many post-communist countries at that time, at some point, the oligarchs wielded influence in a policy-making process (Yadav 2011). In this context, some scholars claim that one can speak of state capture by private economic actors (Hellman 1998; Hellman and Kaufmann 2001; Barnes 2007; Åslund 2007; Ganev 2007; Shentov et al. 2007; Innes 2014; Petkov 2019). State capture generally describes the behaviour of the so-called oligarchs who manipulate policy-making and shape 'the emerging rules of the game to their own, very substantial advantage' (Hellman and Kaufmann 2001, 31) by providing illegitimate private gains to a public official. Yet this form of grand corruption cannot explain the discrepancy in the outcomes of those practices (Markus and Charnysh 2017, 1635). Moreover, it does not describe the behaviour of all oligarchs who capture the state since they could have employed other methods than corruption for pursuing their interests, as will be presented in this study. While it is true that in a transition country such as Bulgaria, most oligarchs profited from corruption at some point, corruption was only one tool in their wide range of practices.

In this regard, the scholarly literature points out how divergent the oligarchic methods could be depending on the political context. In an environment with a weak rule of law, typical of many transition countries, it accentuates direct assumption of political power through executive or legislative office as a winning strategy for the oligarchs (Gehlbach et al. 2010; Winters 2011; Acemoglu et al. 2015; Engvall 2015). Assuming the difficulties of the enforcement of property rights in lawless context with malfunctioning institutions that would guarantee secure property rights, the literature asserts that the oligarchs have no choice but to become 'the powerful themselves by holding state office' (Markus and Charnysh 2017, 1635).

Contrary to the view that the direct rule is the oligarchs' preferred strategy for wealth defence in lawless settings, I argue that the oligarchs employ diverse sets of strategies rather than exclusively assuming actual power by holding a state office. By drawing on the case of Bulgaria in the period between 1989 and 1997, I aim to contribute to the literature on oligarchy by advancing the existing assumptions about oligarchic strategies for pursuing their interest. Given the lack of scholarly contributions on the oligarchs in post-socialist countries other than Russia and Ukraine, this article further fills the gap in the existing literature by analysing the wealth defence methods of Bulgarian oligarchs throughout the 1990s. As such, this study makes two overarching contributions. First, descriptively, it revises the image of the post-communist oligarchs by qualitatively examining the 17 wealthiest elite members in Bulgaria from 1989 to 1997. Second, it helps to establish determinants of oligarchic dominance by analysing their wealth defence strategies. While the findings of this study are particular to Bulgaria, they have broader relevance to other transition countries in Eastern Europe.

To systematically study the wealth defence strategies of Bulgarian oligarchs, this article is organized into three sections. In the first section, I present the theoretical argument of wealth as an influential power resource in all political settings. Next, I describe my research subject, hence the examined oligarchs and the threats to their wealth that they

had to face. The third section analyses the Bulgarian oligarchy between 1989 and 1997. It elaborates on the oligarchs' wealth defence strategies by utilizing the structural-instrumental power dichotomy. In the concluding section, I reiterate my findings, discuss their implications, and offer areas for further research.

### **Wealth defence: the Oligarchs' core political objective**

Scholars widely accept that unequal distribution of wealth is the most enduring economic pattern that has prevailed throughout human history regardless of the political arrangement (Singer 2000a, 2000b; Bartels 2008; Wedel 2009; Winters 2011; Flannery and Marcus 2012; Piketty 2017; Barucca 2020). It is presumed that wealth stratification had been embedded into society with the rise of agricultural villages (Flannery and Marcus 2012, 551). It has persisted across the kingships, feudalism, dictatorships, one-party rule, and liberal democracies (Winters 2017, 159–63). Recent scholarly literature on the property has delineated those pathologies of wealth accumulation (Piketty 2017) while theorizing the element of wealth as a significant power resource (Bartels 2008; Whibley 1896; Hardoon et al. 2016). It assumes that the unequal distribution of wealth creates a notable power advantage in the political realm for the minority of the wealthiest while arguing that the more unequal distribution of wealth is, the more relative power the moneyed individuals have (Singer 2000a; Page et al. 2013; Piketty 2017).

Speaking about minority power, mentions of oligarchs have been recently prevalent, especially in the literature on post-communist countries (Fortescue 2006; Åslund 2007; Hoffman 2011; Klein et al. 2012; Wilson 2016; Schimpfössl 2018). The term has been usually employed in a pejorative manner to refer to actors involved in illegal activities whereby they influenced politics. However, it does not abound exclusively in the literature examining relatively unsuccessful transition countries. The term has occurred in various contexts describing people in charge of power in a one-party political system, economic or cultural elite governing without having formal political power or broadly all individuals holding minority power (Leach 2005, 317–19). Although relatively widely used, the utilized theoretical approaches vary significantly across cases. Definition of oligarchs has remained implicit and underspecified, resulting only in a slight conceptual overlap in the application of the term to Russian (Fortescue 2006), Indonesian (Hadiz and Robison 2013), US (Formisano 2017), or medieval oligarchs (Blanshei 2010). Most recently, Winters (2011) developed a theory of oligarchy that offers a plausible definition. He suggests that 'oligarchs are actors who command and control the massive concentration of material resources' that can be used for their personal interests (Winters 2011, 6).

Even though the wealth accumulation in the hands of very small minorities has been firmly settled as ordinary, its maintenance is anything but durable. Nicholas Blomley (2003) observes that property is, in essence, relational because it is always held at the expense of others. In other words, it regulates the relations between people by dividing the rights to control over it (Singer 2000a). Under this view, the ownership connotes the exclusivity of property in the sense that it gives the owner a unique power to exclude everybody else from utilizing or transferring their property (Sax 1971). Therefore, the property is very much prone to be at the centre of disputes between the ones that own and those who do not. The claim 'this is mine' very often confronts the counter-reaction 'who said that?' (Blomley 2003). These claims and counterclaims produce conflicts and

frictions in society. And these generate significant political challenges for those who own (Singer 2000a), considering how costly the enforcement of property rights is (Robson and Skaperdas 2008). Sustaining unequal distribution thus requires deliberate effort on the part of the rich.

In this regard, the literature points out that the rich face severe challenges stemming from the mere fact that they are enormously fortunate (Volkov 2002; Åslund 2007). The number of threats arising from the discords mentioned above increases as the wealth accumulation in the hands of the few rises. Thus, one of the most challenging obstacles the moneyed have to face is how to preserve their unique minority position against an array of threats to their wealth. For that reason, the ‘defining political motivations of all oligarchs are defensive and existential’ (Winters 2017, 39). It is worth emphasizing that the wealth defence of the richest few is quite distinct from the protection of ordinary citizens’ property. While the oligarchs want their possession to be protected from theft as every ordinary citizen does (Volkov 2002), the strategies for securing them goes well beyond protecting an average possession (Åslund 2007). Protection of the great wealth involves much more than placing locks on it. The defence of the oligarchs’ wealth demands specific capacities not shared by everyone in society and requires the deliberate, conscious, and active engagement of its owners (Winters 2011).

### ***Wealth as a power resource***

In light of the exploration of wealth stratification, a materialist perspective on oligarchs comes into a clearer view. It builds on the power resource approach that highlights certain means or capacities that the actors hold and may be used to pursue their interests. In this regard, wealth has long been recognized as an important power resource because of its ‘large domain [of use], high concentration potential as well as high convertibility and liquidity’ (Korpi 1985, 34). For example, political candidates who possess a great fortune can afford to pay for massive election campaigns that are exceedingly difficult to defeat, well-funded political movements are more likely to succeed in the political contest than those with limited resources, and private owners of critical infrastructure pursue their interests more efficiently than the ordinary citizen by leveraging the government (Åslund 2007). A high concentration of material power in the hands of the few is thus politically extremely significant by virtue of its versatility. With respect to this, wealth provides the formidable ground on which the oligarchs stand as powerful political actors.

The oligarchic power can be conceptualized along the structural-instrumental dimension. In the structuralist view, a state is fundamentally dependent on business; hence, business interests have a ‘privileged position’ in politics (Lindblom 1977). With this respect, the scholars highlight the baseline of its power that lies in their ability to make an important decision about the allocation of resources, employment levels, location of jobs, prices, and revenues available to the government that may have a profound impact on the state, its economy, and the whole society (Hacker and Pierson 2002). Having control over the capital flows, people in business hold leverage over governments (Young et al. 2018). As Markus and Charnysh (2017, 1633) put it: ‘mobile private wealth signals the threat of exit that suffices for political outcomes.’ Therefore, in this structural power perspective, the power may be ‘effectively

exercise[d] by being there' (Strange 1996, 24) without any intention of active engagement. In other words, some wealth-holders may choose to remain on the political sidelines as long as their vital interests are secured. The power held thus does not necessarily have to be continuously used (Isaac 1987).

In addition to the structural power, scholarly literature identifies the instrumental element of power (Matveev 2019; Renckens 2020) that implies the actual involvement of wealth-holders in politics by deploying their material resources. In this perspective, the participation of the super-rich in politics can be conceptualized along the direct-indirect dimensions (Markus and Charnysh 2017). Direct strategies involve a legitimate assumption of power by holding office, notably in executive or legislative branches (Winters 2011; Gehlbach et al. 2010; Markus and Charnysh 2017). The instrumental power of the wealth-holders is not, however, determined only by their direct involvement in politics but also by the amount they are willing to spend for enforcing their interests. Material power allows the wealthiest few to purchase the engagement of others who serve them to fulfil desirable objectives without the objective being in their personal interest (Klein et al. 2012). The only requisite is that they are remunerated for their service. Therefore, the wealth-holders can pursue wealth defence without assuming the state office (Markus 2015). Given the abundance of their resources, the possibilities of their utilization for securing the property are versatile. They can afford to hire the armies of professionals who work as advocates of their interests, and it does not necessarily involve illegal methods such as corruption. For example, it may include employing the best lawyers, tax advisors, accountants, etc. (Åslund 2007).

### ***Threats to Wealth***

The literature stresses two dimensions of threats that attract great riches. One, already alluded to, involves the expropriation of property that may be top-down or bottom-up. The former happens when a state or a ruler seizes property from above, while the latter occurs when the impoverished majority attacks the oligarchs from below and redistributes their property (Acemoglu and Robinson 2006; Markus 2015). Moreover, the expropriation of a property may also be horizontal – when one wealth-holder encroaches on the property of another (Winters 2011; Markus and Charnysh 2017). It is important to note that these forms of threats appear especially in structures with highly unsecured property rights. Put another way, both vertical and lateral expropriation are more likely to occur in states with a weak rule of law (Daron and Robinson 2006). The main concern of the wealth-holders under this condition is how to secure basic claims to their wealth.

The other dimension concerns taxation (Braithwaite et al. 2007, 140). When a state becomes the guarantor of secured property rights, the theft of someone's property is punished according to the legal system of that particular state (Frye 2004, 454). As a result, the threat of taking or encroachment is minimized. In return for such service, the state imposes a levy on individuals' wealth. In this regard, it is 'the armed state that poses threats and makes the demand of its own in the form of taxes on wealth and income' (Winters 2011, 24). In this situation, the principal challenge for the oligarchs is how to keep as much of the flow of income and profit from their wealth as possible under the circumstances of property rights security.



### **Wealth defence methods**

What do we know about the oligarchic strategies for wealth defence in various contexts? In his seminal work, Jeffrey Winters (2011) has pointed out how divergent the oligarchic methods could be. The strategies of wealth-holders for pursuing their interests are highly variable across political contexts (Åslund 2007; Klein et al. 2012). In systems with effective institutions that secure property rights and impose costs on any fraudulent behaviour, the oligarchs may choose from a different set of practices from what they may pick in the systems lacking the rule of law. More concretely, Winters notes that in an environment with secured property rights, ‘oligarchs have no compelling need to be . . . engaged directly in political roles’ (Winters 2011, 7). On the other hand, he treats direct engagement in the politics of the oligarchs as the most effective strategy in lawless contexts.

Winter’s approach goes in line with the credible commitment paradigm that implies the superiority of actual assumption of power through public offices in countries lacking the credibility of its institutions (Markus and Charnysh 2017, 1635; Diermeier et al. 1997, 37–40). It proceeds from the premise that the state possesses coercive capacities while the private actors are exposed to their use (North and Weingast 1989, 806; Frye 2004, 455). Any arbitrary use of those capacities may attenuate property rights and discourage private actors from economic activities (Markus 2015, 9). In other words, the credible commitment argument stresses the importance of establishing effective institutions for property rights security (North 1990) that subsequently reinforces economic progress (North and Thomas 1973; North 2005; Acemoglu 2005). Therefore, it extols the virtues of the system of rule that controls the behaviour of its citizens by imposing costs on any predation or by making such predation impossible (Acemoglu and Johnson 2005, 955). If the oligarchs consider their assets vulnerable to expropriation or theft, the costs of exercising their property rights are relatively high (Diermeier et al. 1997, 27–28). And if these costs are higher than the expected returns, there is little incentive for rights holders to engage in economic activity, and the economic performance stagnates (North and Weingast 1989, 803). However, they do not necessarily rely upon the state and its institutions to secure their property. They may employ their material power to enforce property rights otherwise (Frye 2004, 454). With this respect, the literature suggests that in a country where the rule of law is lacking, the oligarchs should secure their property rights more effectively while ruling the state directly (Gehlbach et al. 2010, 719).

### **Case of Bulgarian Oligarchs**

To systematically understand the manifestation and effectiveness of material power, I have made an in-depth analysis of the wealth defence strategies of 17 Bulgarian oligarchs.<sup>1</sup> Due to the lack of any quantitative data on the property of the wealthiest Bulgarians in the examined period, the sample of oligarchs was selected on the basis of references to moneyed individuals and successful businessmen both in the scholarly literature and in the press. My period of examination is from 1989 to 1997, the year when a profound economic crisis erupted, which caused, on the one hand, the impoverishment of some oligarchs and, on the other hand, the enrichment of others. Following Faccio (2006), I rely primarily on media sources. Media sources owned by an oligarch from my



sample were, however, excluded from the consideration. The only exception was when I made a content analysis to scrutinize the utilization of media as one of the wealth defence strategies better.

Throughout the nineties, Bulgarian oligarchs faced intense threats to their wealth. First, the administrative regulations curtailed the income opportunities of the oligarchs. Notably, privatization posed a great danger in this regard. Ensuring concentrated wealth through rent-seeking activities, the fact that ‘their’ source of fortune would be privatized into the hands of someone outside of their networks was naturally unbearable (Mihov 2001). However, due to the inevitability of its initiation, they adapted to the new circumstances. Therefore, the privatization *per se* was no threat anymore, though the danger remained – in the particular way the privatization would be implemented (Barnes 2007, 80–81). It was contingent upon the nature of one’s property, whether it was voucher privatization or cash privatization perceived as unacceptable or threatening (Mladenova and Angresano 1996, 497; Schoenman 2014, 103). Among the other administrative regulations that threatened oligarchic wealth proved to be tax liability or the act on the proof of the origin of one’s property.

Also, the elimination of entry barriers for foreign direct investment and its subsequent flow into the country could significantly interfere with established oligarchic practices and disrupt the oligarchs’ unique positions (Barnes 2007).

Next, the oligarchs faced constant public pressure through democratic institutions. Notably, it cast a shadow over them during the electoral campaigns, considering the widespread anger at the strong influence of business interest in politics (Schoenman 2014, 103). The parliamentary elections of 1994, for instance, ushered in the period of intense anti-oligarchic rhetoric (Kalinova and Baeva 2010, 281).

Third, following the elections of 1994, some of the once-privileged oligarchs became the targets of the government (Ganev 2007). For example, in 1996, Zhan Videnov allowed the state prosecutor to launch an investigation of Valentin Mollov, Krassimir Stoichev and Hristo Aleksandrov for illegal practices. Similarly, the operations of Multigroup<sup>2</sup> were subjected to close scrutiny (Barnes 2007, 85–86).

Last but not least, intraoligarchic expropriation emerged almost immediately after 1989. Due to the incapability of state institutions to prevent trespass, private threats to the property by organized criminal groups were commonplace (Frye 2004, 454). In the raiding attacks, oligarchs used both the private security services and their network of contacts in the state apparatus to encroach on the assets of their rivals (Schoenman 2014, 8). The coercive operations of the organized crime groups of 1994 initiated by Ilya Pavlov can serve as an example of such attacks. The initial objective proved to be a formation of a cartel agreement in the sugar industry. However, Pavlov’s competitors declined to cooperate, and the operation turned highly violent with the primary aim to eliminate his rivals and acquire their assets (Kapital 1994a, 5).

Considering the extent of threats to oligarchic wealth, it is indisputable that wealth defence should have been at the centre of the oligarchs’ calculations. Even though they were also unquestionably motivated by status-related goals, these goals usually depended upon one’s wealth and its defence (Markus and Charnysh 2017, 1636–37). Moreover, this first generation of oligarchs was heavily exposed due to the high level of unpredictability of the transition process accompanied by frequent turbulences and distresses (Dobrinsky

2000, 581). During this period, no oligarch would have become super-rich without fierce effort to maximize wealth, and none of them would have remained in this rarefied circle without tenacity in safeguarding it.

## **Wealth defence strategies of Bulgarian Oligarchs**

This third section makes an empirical case for the prevailing wealth defence strategies in a country with a weak rule of law. It follows the structural-instrumental power dichotomy to better illustrate the versatility of material power the oligarchs have for their disposal.

### ***Structural power: Oligarchic cooperation, media ownership***

As pointed out above, the structural power theorists' assumption implies that ownership of large assets suffices for achieving political outcomes. However, the persistent efforts on the part of the Bulgarian rich to secure their wealth suggest that oligarchs themselves considered structural power insufficient. In fact, it is argued that the structural power loses importance in the settings where elites are driven by short-term plundering individualism (Markus and Charnysh 2017, 1651), which Bulgaria in the 1990s undoubtedly was. Nevertheless, it would be a mistake to ignore both the oligarch's awareness of their structural advantage and their attempts to enhance their structural power. Therefore, I include two sets of wealth defence strategies that underline the structural advantage of the oligarchs. Even though both also required a certain amount of instrumental power to be used, they had overall structural implications.

First, to take advantage of the combined structural power and the subsequent power potential stemming from the collective action and the reduction of risks of lateral attacks, Bulgarian oligarchs were inclined to formally cooperate by establishing business associations and alliances (Schoenman 2014, 70). In December 1989, The Citizens' Business Enterprises Union and the Bulgarian Association of the Businessmen 'Revival' were founded by two rivals-to-be: Valentin Mollov and Dobromir Gushterov (Marcheva 2013, 110). From the very beginning, the principal objective of these associations was declared to be safeguarding the right of private owners and businessmen (Stoyanov 1997, 61–62). Both were also formally recognized by the National Assembly as the representatives of the employers during the tripartite consultations (Demokracya 1991, 1). They were followed by the Confederation of Businessmen and the Patronat Club (Shentov et al. 2007, 27).

However, the most prominent grouping in the 1990s was the Confederation of Bulgarian Industrialists, also known as the Group of Thirteen (G-13) (Schoenman 2014, 82). Founded in 1993 on the initiative of Dobromir Gushterov and Ilya Pavlov, it brought together the heads of the largest business clusters at that time. This group consisted of the owners of the largest stock exchanges, banks, insurance companies, private security firms, arms-producing companies, large trading companies, and media.<sup>3</sup> The assets of its members represented a significant part of the private sector, employing a substantial number of Bulgarians. Moreover, they altogether controlled a considerable portion of Bulgarian media (Shentov et al. 2007, 27). The principal objective of G-13 was claimed to be the protection of the Bulgarian national wealth from the entrance of foreign capital (Demokracya 1993a, 1). The primary purpose of establishing such a grouping,

however, must be rather seen in the attempts to keep as much as the flows of income and profits from their wealth, which very often originated from the rent-seeking practices, secured (Schoenman 2014, 82; Prokopiev 1994).

It should be noted that since its foundation, the Group of Thirteen was conceived to be very influential by state officials. In addition to journalists, many high-ranking politicians, including prime minister Lyuben Berov attended the constituent congress of the grouping (Charamdzhiev 1995, 8–9). In fact, it was not uncommon that the representatives of G-13 frequently met senior public officials to consult mainly the economic issues (Prokopiev 1994, 12–13). For example, in winter 1993, the Minister of Defence Valentin Aleksandrov invited G-13 to discuss the question of the prospects of Bulgarian accession to NATO and other defence-related issues, particularly the Yugoslav embargo and the supplies of arms by the enterprises owned by the members of the cluster to the state (*Demokracya* 1993b, 2).

Besides the above-mentioned collaboration based on the membership in the business associations and alliances, Bulgarian oligarchs also tried to secure their property by launching joint ventures. Unlike the former, this relationship was based on the contracts that consist of one or more agreements involving two or more actors that enter into for a specific and definable objective. Cooperation via joint ventures generally presents an attractive alternative for competing enterprises by minimizing any lateral attack and sharing both the profits and losses. Moreover, it constitutes greater leverage, hence increasing the lobbying potential. This proved highly relevant, particularly concerning the transition process (Guatterman 2009, 2). The IGM was one of the first attempts at such cooperation. Founded by Vasil Bozhkov, Ilya Pavlov, and Mladen Michalev at the beginning of 1994, it concentrated its activities exclusively on the gambling industry, where it soon acquired a monopoly (Prokopiev 1994, 12–13). It was followed by the merger of Krassimir Stoychev's Tron and Emil Kyulev's Turistsport (*Kapital* 1994b, 1), by the establishment of a joint-stock company Medya-Nove-Darik by Valentin Mollov, Vasil Bozhkov and Ivan Khristov (*Dnevnik* 1995, 1995) and by deeper cooperation in the financial sector between Ilya Pavlov and Georgi Agafonov through Kreditna Banka and Slavyani Bank (Prokopiev 1994, 12–13).

Second, media ownership was another crucial strategy. Media coverage is conceived to be an important asset in political struggles (Markus and Charnysh 2017, 1657–58). Acquiring means of mass communication allows its owners to turn the media power into the political one and, in turn, transform it into economic power. Politicians who do not regularly appear in the media often fail to successfully appeal to and communicate with the public. On the contrary, the politicians who communicate with the citizens through media at large are more likely to influence their decisions, therefore improving their prospects of success in the political contest or maintaining their hold over state institutions (Castells 2009, 194). The most successful in the media landscape proved to be Valentin Mollov and Petyo Blaskov, who controlled the 168 Chasa (168 Hours) press group during the 1990s. They launched its first weekly newspaper, 168 Chasa, at the beginning of 1990. After a great success with the number of releases, they introduced the daily 24 Chasa (24 Hours) that quickly became very popular in Bulgaria. Formally independent of any political affiliation, the press group promoted the idea of democracy and market liberalization, and its media belonged to the ones with the most significant public influence (Bakardjieva 1995, 69–72). The apparent feature of this press group was

that the majority of the content speaking of Mollov referred to him as the ‘honest businessman.’ In the meantime, it often associated other wealthy Bulgarians with swindlers, thieves or/and mafia.

Unlike the 168 Chasa, Duma Press was openly politically affiliated as an outspoken supporter of the Bulgarian Socialist Party. Founded in 1994 by the economic cluster called the Orion,<sup>4</sup> it bought the eponymous daily newspaper – Duma. This daily had inherited all the assets of the communist’s leading newspaper *Rabotnichesko Delo* (Worker’s Cause) (Bakardjieva 1995, 72), thrived on the subscription of the leftist electorate and had been published by the Bulgarian Socialist Party until its acquisition by Duma Press. The major shareholders of the press were Rumen Spassov and Veska Medzhidieva (Peev 1995, 12), the leading figures of the Orion and the founders of the notorious Bulgarian Agricultural and Business Bank (Ganev 2007, 78). Among the others, widely circulated was the daily newspaper *Standard* owned by Krassimir Stoichev and the daily *Trud* (Labour), published by Valentin Mollov’s Media Holding (Bakardjieva 1995, 75).

### ***Instrumental Power: Direct Political Engagement, Clientelistic Networks and Private Security Companies***

As already mentioned in previous sections, the literature on wealth-holders participation in politics stresses direct involvement as a winning strategy for oligarchs in such an environment (Gehlbach et al. 2010, 726). Put another way, the political involvement of oligarchs should become more direct when property rights are not sufficiently secured. Indeed, some scholars of post-communist countries emphasize the actual oligarchic assumption of power, especially during the transition period (Engvall 2015, 34). However, as I illustrate below, it does not entirely hold in the Bulgarian case, considering the extent of indirect strategies the oligarchs employed in the examined period.

To be sure, some of the oligarchs displayed a striking intention to succeed in the electoral contest and thus to hold a state office. All of them, nonetheless, failed to thrive. For example, Valentin Mollov wanted to stand in the first free elections in June 1990 as an independent candidate. Still, the council of the Citizens’ Business Enterprises Union discouraged him from the candidature with the claim that establishing a new party would be more efficient for achieving the interests of the entrepreneurs (Bonchev 1990, 2). Therefore, he initiated the foundation of the Bulgarian Business Bloc to compete in the elections. During the constituent meeting of the party, the majority of its members voted for George Ganchev to become the chairman of the party instead of choosing Mollov (Krumova 1990, 1). Neither in the first nor the second parliamentary election did anyone else attempt to be actively politically engaged.

In the 1994s elections, on the contrary, the greater dedication of the oligarchs was in place. Valentin Mollov, Ilya Pavlov, and Petyo Blaskov initiated the establishment of the Union of Patriots, a political alliance of the conservative parties that opposed the entrance of foreign investors to Bulgaria. However, the Union of Patriots did not reach the 4% threshold, leading to its dissolution. Consequently, Mollov and Blaskov founded another party – the New Bulgaria. Neither party had a long existence (Ticholova 1995, 11; Boyadzhieva 1995, 1). Among the others trying to succeed in the elections was Dobromir Gushterov, who stood in the 1994s elections as an independent candidate for his home region of Stara Zagora. Even though Gushterov had spent a huge amount of money on the campaign and seemed to have gained great public support, he was not successful

either (Kapital 1994c, 4). At the municipal level, Vencislav Yosifov stood for Sofia's mayoral elections in 1995. Formally without any political affiliation,<sup>5</sup> he was backed by the Bulgarian Socialist Party (BSP) that substantially financed his campaign. He, too, failed. (Denchev 1995, 1; Sugarev 1995, 1–2).

Unlike direct engagement in politics, private funding of political parties proved to be an effective strategy to follow one's own interests. In the first parliamentary elections, for instance, The Citizens' Business Enterprises Union substantially sponsored the newly founded Bulgarian Business Block (Kokushkin 1991, 4). Valentin Mollov, after the failure of running his party, established ties with the Union of Democratic Forces that offered him to stand for them in the 1991 parliamentary elections. Mollov refused and instead decided to support the party financially (L. Nikolov 1991, 2). In the meantime, he publicly rejected maintaining any relations with the Bulgarian Socialist Party (Borisova 1991, 2). In the 1994 early elections, Emil Kyulev, Borislav Dionisiev, and Georgi Avramov gave the substantial public and financial support to the Union of Democratic Forces (*Demokracya* 1995a, 1–5).

It is worth saying that most party financings were not reported to the electoral commissions and were not publicly known. Instead, the oligarchs developed a tangled network of clientelistic, rather non-public, relations (Schoenman 2014, 105). The literature defines political clientelism as 'a long-lasting, dyadic, and face to face relationship between a patron and client' (Kera and Hysa 2020, 126). It concerns providing good/service to get another as a *quid pro quo* (Kitschelt 2000, 849; Hilgers 2011, 567–88; Hicken 2011, 291). In the initial stage of the transition, those relationships derived principally from the acquaintances made before 1989. Among the prominent politicians involved in such exchanges was Andrei Lukanov, indisputably the most influential highest-ranking officials both before and after 1989. In the mid-1980s, when Decree No. 56 that legitimated a certain number of private business activities was passed, he worked in the branches of foreign export, foreign trade, and international finance and stood behind the rising entrepreneurship (Ganev 2001, 401). After the first free election in 1990, he was appointed prime minister and took advantage of his position and relations with new entrepreneurs. Although he remained in the office of the prime minister only for a few months, he succeeded in developing wide networks that reached from the top to the bottom of society and extracted state resources. One notable acquaintance of Lukanov was Multigroup's president Ilya Pavlov (Ganev 2007, 101).

Later on, roles in the patron–client relationship overturned; hence, political parties became the clients of the powerful super-rich, and the oligarchs played roles of the patrons. They took control over Bulgarian governments by committing key politicians to themselves and subsequently by capturing the leadership of the political parties (Schoenman 2014, 30). Consequently, politicians could remain in power only as long as it was in the interest of their patrons. This type of symbiosis allowed the oligarchs to replace disobliging managers of state enterprises, avoid tax investigations, obtain licences for their business, enforce the adoption of a law, or receive unrestrained financing. The most prominent actors of this practice proved to be the leading members of the Orion (Roumen Spassov and Krassimir Raidovski in particular). At some point in 1994, the Orion got in touch with the leadership of the Bulgarian Socialist Party and financially supported the party in the election campaign in 1994 (Schoenman 2014, 105). The BSP won an absolute majority in the newly elected parliament, and the Orion was soon rewarded. Krassimir Raidovski was appointed the

director of the Press-Center of the Council of Minister, in which he could control the flow of the information from the cabinet to the public. Lyubomir Kolarov was appointed chairman of the Committee on Mail and Long-Distance Communications (Ganev 2007, 79). Hence, the Orion became involved in policy decision-making (Peev 1995, 12). Thereafter, the Orion launched the Bulgarian Agricultural and Industrial Bank. Even though granting the licence raised some concerns about the frauds and the prosecutor general ordered an investigation into the legality of the registration, the Orion succeeded in collecting large sums of money, mainly from the farmers, peasants and agricultural cooperatives. Once prime minister Zhan Videnov resigned in December 1996, the most prominent members of the grouping emigrated to South Africa, and all the money collected by the Bulgarian Agricultural and Industrial Bank disappeared (Ganev 2007, 77–85).

Along with the control over political levers, of no less importance was to secure influence in public administration. The main feature of this approach was to employ competent senior public officials in one's own private company. In fact, obtaining control over a critical position in state institutions and enterprises was of strategic importance (Schoenman 2014, 107–9). Unlike politicians, who usually stay in office for shorter periods, senior public officials or managers tend to remain in their job for a longer time span. Therefore, a symbiotic model emerged in which it was impossible to distinguish where public property began and private property ended (Shentov et al. 2007). For instance, Nedyalka Sandalska had worked in the Department of Tourism under the Ministry of Culture, where she was involved in the preparation of the privatization of tourism from the early 1990s. In the midst of 1994, she resigned from the post at the ministry. She almost immediately was made the vice-president of Multigroup and the chief executive officer of Multigroup's subsidiary – the Bulgarian Tourist Holding (Nenov and Bicer 1994, 16–17). It was not surprising that the company later became very successful in the privatization process (Kapital 1995, 13).

Last but not least, the oligarchs employed private agencies to increase their property's security (Schoenman 2014, 8–9), considering the malfunctioning state institution were incapable of preventing the encroachment of one's property (Frye 2004, 454). As was the case in some other post-socialist countries, many of those companies formed criminal or near-criminal segments of the private sector (J. Nikolov 1997, 80). They were established and developed by the individuals who had previously been employed in the Ministry of Interior, the militia, or graduates of the state's sports schools, particularly from combat sports disciplines, who became unemployed after 1989. Through violence, they developed networks of trade and racketeering, including security and insurance companies (Tzvetkova 2008, 329; Barnes 2007, 79). Since this sector remained largely unregulated after 1989, the security services existed as legal organizations throughout the 1990s even though they often used illegal methods (Tzvetkova 2008, 329; J. Nikolov 1997, 84). A notable example of such practice was the coercive operation of private agencies in the sugar industry (Kapital 1994a, 5).

### ***The versatility of material power: the Himko-Kremikovtzi affair***

In order to demonstrate the dynamics that characterized the oligarchic behaviours in terms of wealth defence, I complete this section with a more detailed exploration of the Himko-Kremikovtzi affair. This affair clearly illustrates how Ilya Pavlov knew how to



make the most of his material power to pursue his interests. Concretely, he used his vast clientelistic network and grasped the opportunity of loopholes in legislation to exploit the state and secure the acquired wealth. The Himko-Kremikovtzi affair highlights the versatility of oligarchic power and, as such, serves as an excellent example of what strategies one oligarch had to use to achieve one particular objective.

Himko is a large factory producing fertilizers that had enjoyed a monopoly on the domestic market throughout the 1990'. Kremikovtzi was Bulgaria's largest metalworking company. By early 1994, both companies got into financial troubles due to which they were falling behind their payments to Bulgargaz, the state-owned gas distributor enterprise. In May 1994, Angel Popov, the chief executive officer of Bulgargaz, decided on selling the debts of both companies to banks owned by the Multigroup conglomerate (Todorov 1994, 1–7; Vasilev 1994, 21), which was later approved also by the Berov's cabinet (Asenov 1994, 1–2). However, the wording of the contracts soon leaked to the press and instantly became a major issue. Therefore, the next government<sup>6</sup> of Zhan Videnov, by submitting a special amendment to the 1995 Budget Law, declared the contracts to be revoked. However, 54 deputies from different caucuses give the amendment for a review to the Constitutional Court, arguing that it violates freedom of contracts. Even though the court declared it unconstitutional, it questioned both the circumstances behind signing the contract and the legality of the content itself and recommended the case be resolved by the ordinary courts (Ganev 2007, 106–10). By that time, Videnov's cabinet called on the directors of the two state-owned enterprises to suspend the debts repayments.

At that point, the strength of the Multigroup became even more apparent. The management of both the companies was under constant pressure, through formal and informal channels, to proceed with the payments to Multigroup (*Demokracya* 1995b, 4). Similarly, the personnel of involved courts, prosecutor's office and police were subjected to intimidation (Aleksandrova and Prokopiev 1995, 19–21). Meanwhile, Pavlov found a way to secure the acquired wealth by transposing it to new fungible assets. Multigroup applied for a loan from the State Saving Bank, collateralizing the debts collected by Bulgargaz. As a result, the paradoxical situation arose when the courts were deciding over the legality of the agreements while another state institution accepted them as collateral. Although the High Court eventually proclaimed them illegal and obliged Multigroup to return most of the collected, the court's decision was not enforced. Ultimately, Pavlov succeeded in exploiting the state and securing his wealth by collecting debts of state-owned companies and taking out loans from state-owned banks that it never repaid (Ganev 2007, 109).

## Conclusion

Bulgaria represents a case of a country that underwent an unstable, uneven, and very contentious transition process in the 1990s. While the institutional framework of the former regime had been relatively quickly removed, the establishment of functional democratic and market-economy institutions was a rather long trial-and-error process. The inconsistent policy amplified and accelerated the upsurge of crime, dramatic worsening of the economic situation, political instability, and the fragile rule of law. As was true of many other transition countries, such a chaotic environment entailed widespread



rent-seeking activities enabling a small group of people to become extremely rich. With this respect, scholars note that policy-making in developing countries is usually captured by the oligarchs that aim to pursue their personal interests.

In this article, I used the concept of wealth defence to scrutinize the strategies of Bulgarian oligarchs for securing their wealth in the period between 1989 and 1997. More concretely, I analysed the wealth defence of 17 Bulgarian oligarchs to challenge the notion of scholarly literature that in an environment with a weak rule of law, the oligarchs should secure their property rights more effectively when holding state offices.

Given the pervasiveness of threats to oligarchic wealth and the relatively lawless environment with malfunctioning institutions that would guarantee secure property rights, Bulgaria was a fitting example of a country where direct engagement in politics should be the preferable strategy. Furthermore, the uneven pace of the transition made the environment very chaotic and unpredictable. It was challenging for the super-rich to predict the policy changes with the new government. This uncertainty made it nearly impossible for oligarchs to adopt *ex-ante* known wealth defence strategies.

My analysis of the wealth defence strategies of Bulgarian oligarchs in the 1990s suggests, contrary to the assumptions of the literature on oligarchy, that in a country where the rule of law was lacking, the oligarchs did not resort preferably to an actual assumption of power by holding a state office. Needless to say, some of them aspired to take executive or legislative office, but none of them succeeded in the elections. In their pursuit of wealth defence, they employed a diverse set of strategies: cooperation through business associations, alliances, and joint-ventures; the legitimate financing of the political parties; the establishment of vast networks of patron–client relations both with the elected politicians or senior public officials; employment of private security agencies; and ownership of significant media assets.

This study also found little support for the presumption of structural power theorists that ownership of large assets suffices for achieving political outcomes. The persistent efforts of the rich to secure their wealth imply that oligarchs themselves considered structural power insufficient. True, both formal cooperation of the wealthiest and the media ownership could be seen as attempts to strengthen the structural power potential. However, considering the extent of the instrumental involvement of wealth-holders in pursuing their interests, they only supplemented other strategies.

Although empirically, this paper limits itself to Bulgaria from 1989 to 1997, it provides new findings in the study of oligarchic strategies for wealth defence. Apart from contributing to the literature on the oligarchy, it also offers valuable inputs into the study of developing democracies because it fills the gap in the scholarly literature on the post-socialist transition in the region.

## Notes

1. Among the examined oligarchs were Hristo Aleksandrov, Georgi Agofanov, Georgi Avramov, Petyo Blaskov, Vasil Bozhkov, Stepan Eramjan, Borislav Dionisiev, Dobromir Gushterov, Emil Kyulev, Veska Medzhidieva, Valentin Mollov, Ilya Pavlov, Angel Parvanov, Roumen Spassov, Krasimir Stoychev, Tosho Toshev, Vencislav Yosifov.
2. Multigroup was one of the strongest economic conglomerate to emerge after 1989 in Bulgaria (Ganev 2007, 101).

3. Among the members of the Group Thirteen were Hristo Aleksandrov, Georgi Agofanov, Georgi Avramov, Petyo Blaskov, Vasil Bozhkov, Stepan Eramjan, Borislav Dionisiev, Dobromir Gushterov, Emil Kyulev, Valentin Mollov, Ilya Pavlov, Angel Parvanov and Krasimir Stoychev (Shentov et al. 2007, 27).
4. Orion, or the Orion circle, was a group of collaborators (namely Roumen Spassov, Krasimir Raidovski, Veska Medzhidieva, Mikhail Danov, Nikolai Krivoshiev, and Ljubomir Kolarov), that was involved in various business ventures (Ganev 2007, 78).
5. Vencislav Yosifov had been a member of the Bulgarian Socialist Party until the law prohibiting membership in any political party to the high-ranking officials in the financial sector (*Zakon na bankite*) was adopted in 1992 (*Demokracya* 1995c, 2).
6. By the end of 1994, government of Lyuben Berov, under the public pressure, resigned. The newly elected government of Zhan Videnov (BSP) was installed in February 1995.

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No potential conflict of interest was reported by the author(s).

## Notes on contributor

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