

ECONOMIC DISCUSSIONS AT THE EUROPEAN PERIPHERY
BULGARIAN ECONOMISTS DURING THE GREAT DEPRESSION*



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Summary:

The history and analysis of the theoretical discussions and policy interpretations of Bulgarian economists during the Great Depression has rarely been an object of study. My ambitions here are to present my views on two main issues. The first deals with the question of how the Bulgarian academic community interprets the Great Depression, in what theoretical models Bulgarian economists think and the practical solutions they offer. This involves elaborating typical elements leading to their theoretical and practical models, highlighting the specific Bulgarian interpretation of depression and the contribution of Bulgarian economists. And most importantly, what makes them gradually realize the structural characteristics of the crisis and in what socio-economic model they see the future state of the economy. The second issue is concerned with identifying the main channels, the main factors leading to the formation of these models and of the Bulgarian knowledge of crises and depressions. It touches primarily on the role of the economic and social reality, the economic, political and social problems of the Bulgarian economy in that period. The second main channel relates to the sources of intellectual and theoretical concepts that form the theoretical baggage of Bulgarian economists, what schools and ideas influenced them, and how this happened. Such theoretical investigation could give information and ideas of how economic knowledge is formed in general and in peripheral countries in particular. This could help us judge about the value of knowledge and the role of small and peripheral countries for the development of economic science. The monograph is organized in seven chapters. The first one offers a brief survey of the Bulgarian economy prior to the Depression. The second, respectively, presents the Bulgarian economic thought on the eve of the Depression grouped in five intellectual traditions. In the third chapter we present two main models of interpretation of the Great Depression (cyclical and structural), as well as different forms of the structural model (“German planning”, “Keynesian discretion”, or “Marxists revolution”). The last three sections explain the evolution of economic thinking following the main phases of the crisis (deflation and agrarian crisis; monetary and banking crisis, and, finally, administrative economy within the German zone). In the final section we discuss the specificities of the Bulgarian interpretations of the Great Depression and provide some concluding observations.

Key words: history of economic thought, Great Depression, Balkans economies, Bulgaria

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I

Introduction

The history and analysis of the theoretical discussions and policy interpretations of Bulgarian economists during the Great Depression has rarely been an object of study. There were some researches during the socialist period within the confines of the so-called Marxist political economy which, although useful, are for their greater part marked by certain ideological clichés (see Nathan and Berov, 1958, chapter XI; Grigorov, 1960; Nathan, 1964; Nathan and al, 1973). In the post-communist period Rumen Avramov (2007) analysed different aspects of Bulgarian economic thinking when analysing Bulgarian economy in a long-run historical perspective and Martin Ivanov (2001, 2005) when discussing the interwar economic history and foreign debt issues. The only especially dedicated publication on Bulgarian economic discussion of the Great Depression is by Stefan Kolev (2009) who addresses the main points of discussions and shows the main protagonists in them. His article gives a range of starting points for new research and new interpretations. Stefan Kolev draws a parallel with the theoretical discussion in Bulgaria today, stressing, however, the higher training and lore of Bulgarian economists of that time and their detailed and original analyses as compared to the almost missing or very poor analyses of Bulgarian scholars today¹.

My ambition is to elaborate and present my views on two main issues. The first issue deals with the question of how the Bulgarian academic community interprets the Great Depression, in what theoretical models Bulgarian economists think and what practical solutions they offer. And most importantly, what makes them gradually realize the structural characteristics of the crisis, and what is the socio-economic model in which they see the future state of the economy. This is achieved by elaborating typical elements leading to their theoretical and practical models and emphasizing the specific Bulgarian interpretation of depression and the contribution of the Bulgarian economists.

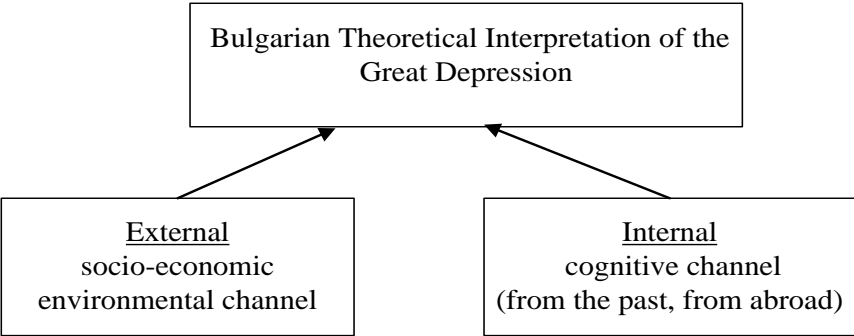
¹Although this is a topic for a different discussion, I hold to say that I fully share this opinion, and so we are at least two of us. A comparative analysis of the debates on the crisis during the Great Depression and today's depression is made by Nenovsky (2009).

Second, to identify the main channels, the main factors that lead to the formation of these models, of the Bulgarian knowledge of crises and depressions. The first channel touches primarily on the role of the economic and social reality, the economic, political and social problems of the Bulgarian economy in that period. The second main channel concerns the sources of intellectual and theoretical concepts that form the theoretical baggage of Bulgarian economists, the schools and ideas that influenced them, and how this happened.

To begin with, in my view it makes sense to distinguish between two basic, figuratively speaking, inward *information channels* or driving forces that shape the Bulgarian economic thought in this period. The first one we could call a channel of the socio-economic reality and problems facing Bulgaria and world economy, which is external to scientific thought. The second – a cognitive channel – relating to the evolution and transmission of economic thought itself. In the first case, economic theory either forestalls or lags behind the needs of a historical period, of economic problems and tasks. In the second case, it is a self-regulating system with its own internal diffusion and evolutionary mechanisms, or it has to do with the formation and dissemination of knowledge as such². Within the second, cognitive channel, we can differentiate between two sub-channels that shape the Bulgarian economic thought. One, coming from the past, from the inertia of economic knowledge and theories of crises already presented in Bulgaria (mainly classical, Marxist, German historical and subjectivist school), and yet another – coming from outside – from the new interpretations and models of economic thought in the West (mainly British monetarist interpretations, Austrian cycle theory, German planned economy and later some Keynesian insights).

² One note is appropriate here. The indicated scheme of the two major channels clearly reveals some similarities with Marx's idea about the dialectics of the base (production or economic relations) and the superstructure (economic theory is part of the superstructure), with the base playing a leading role and the superstructure having some autonomy, etc. All the more so that a number of studies on thought place a different stress on "the role of economic environment on economists" (Gide and Rist (2000 [1944]), IX), or the opposite direction of influence – of economists' ideas on economic environment (Keynes is one such example), and of a more complex view – Schumpeter (1983 [1954]). The above differentiation holds also similarities to the methodological interpretation of Riccardo Faucci's *History of Economic Thought*, who distinguishes *external (exogenous)* interpretation, from the perspective of environment, and *internal (endogenous)* history, through the perspective of theory itself. Both views on thought have their weak points. With the first, one could fall into relativism and chronology of authors and topics, while with the second, to be misled into judging authors outside the concrete historical setting (Faucci, 2000).

Chart 1 Channels forming Bulgarian views on the Great Depression



In this research, we propose to explain the intellectual evolution of Bulgarian economists during the years of the Great Depression and to elaborate the main factors that drive it. Such theoretical investigation could give information and ideas of how economic knowledge is formed in general and in peripheral countries in particular. This could help us judge about the value of knowledge and the role of small and peripheral countries for the development of economic science. Of course, that would require a huge archival, as well as considerable historiographic and analytical work.

The paper is organized in seven sections. The first chapter proposes a brief survey of the Bulgarian economy prior to the Depression. The second, respectively, presents the Bulgarian economic thought on the eve of the Depression grouped in five intellectual traditions. Two main models of interpretation of the Great Depression (cyclical and structural) are presented in the third section. In the last three sections we explain the evolution of economic thinking towards the deep structural interpretation of the depression following the principal phases of the crisis (deflation and agrarian crisis; monetary and banking crisis, and finally, administrative economy within the German zone). In the final section, I discuss the specificities of the Bulgarian interpretations of the Great Depression and make some conclusions.

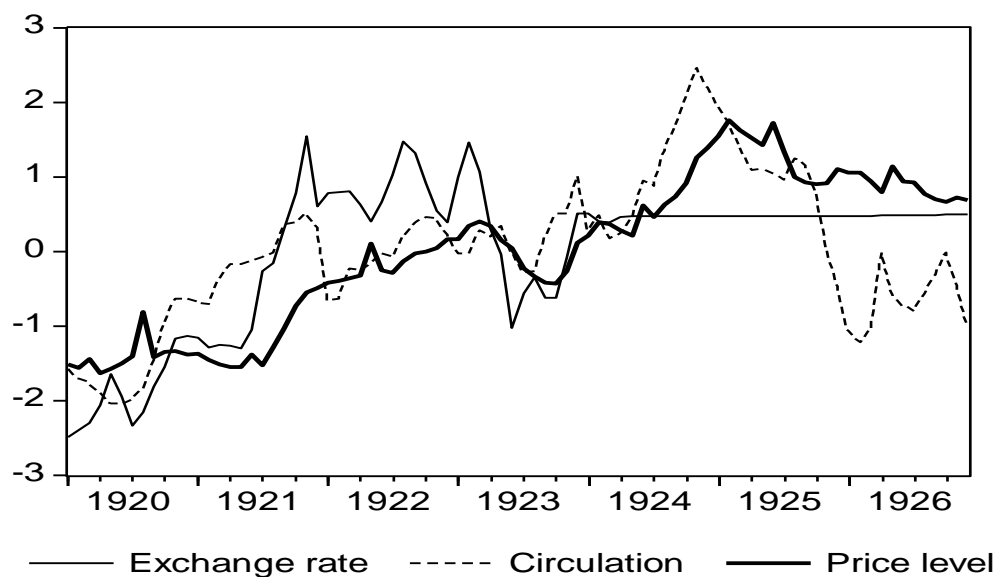
II

Bulgarian economy prior to the Depression

The Balkan Wars (1912/1913) and the First World War (1914/1918) put a severe strain on Bulgarian economy and finance. Under the Treaty of Neuilly (27 November 1919), Bulgaria had to pay a huge foreign debt and above all reparations which came to a quarter of the national income³. Inflation (“expensiveness” [*skapotia*] - the term used by the Bulgarian economists at that time to describe price increases) was very high and national currency *lev* devalued heavily. (see chart 2).

Chart 2

Bulgaria (1920–1926). Price level, money in circulation and exchange rate (Lev-US Dollar) (normalized scale)



Source: Nenovsky (2006), 3

³ For discussion on Bulgarian economic development in the 20th Century, see Avramov (2001).

Table 1

Coverage of the banknotes in circulation in Bulgaria (1912–1918)

| Year | Banknotes covered by gold (mill levs) | Gold reserve (in mill levs) | Gold coverage (%) | Banknotes covered by silver (mill levs) | Silver reserve (in mill levs) | Silver coverage (%) |
|------|---------------------------------------|-----------------------------|-------------------|---|-------------------------------|---------------------|
| 1912 | 139.6 | 51.1 | 36.6 | 24.7 | 16.8 | 58.0 |
| 1913 | 166.0 | 55.3 | 33.3 | 22.8 | 23.4 | 102.6 |
| 1914 | 198.9 | 55.1 | 27.7 | 27.7 | 28.5 | 102.9 |
| 1915 | 304.8 | 61.4 | 20.1 | 65.1 | 22.5 | 34.6 |
| 1916 | 577.1 | 68.2 | 11.8 | 256.8 | 17.2 | 6.7 |
| 1917 | 1 176.0 | 62.9 | 5.3 | 316.8 | 16.9 | 5.3 |
| 1918 | 1 969.4 | 64.0 | 3.2 | 329.2 | 19.4 | 5.9 |

Source and notes: Nedelchev (1940) "Monetary Issues: Bulgaria, 1879-1940", 77 and Nenovsky (2006), 27

Public finance was entirely upset as for the period 1916–1918 the budget deficit was about 1.5 billion gold *levs* and the central bank (Bulgarian National bank – BNB) financed almost all war expenditures of the government (Ivanov 1929, 139). The trade balance between 1919 and 1929 was at a deficit except for three years, with the surpluses far too small to make up for the negative balance in the rest of the period (Svrakov, 1941, [1936], 300). As a result, the banknotes in circulation increased drastically (around 14 times) and the coverage fell down to 3.2 % of the gold banknotes and to 5.9 % of the silver ones (Table 1). The public debt and particularly the “flying debt” reached perilous amounts (chart 3). Between the close of 1918 and the end of 1922, even before reparation payments began on 1 October 1923, foreign debt service reached 112 million gold francs or 16.3 per cent of budget spending. Reparations under the Treaty of Neuilly were added to this debt, coming to 2250 million gold francs at 5 per cent annual interest over 37 years plus occupation expenses representing a quarter of the national wealth of the economy. French claims on Bulgaria were about 26% of overall external Bulgarian debt (next in the creditors’ list of Bulgaria was Italy (25%), followed by Greece (12.7%) and Romania (10.55%). The external debt was 96% of the public debt as the reparations represented 9/10 of the whole external debt (Koszul (1932, 40).

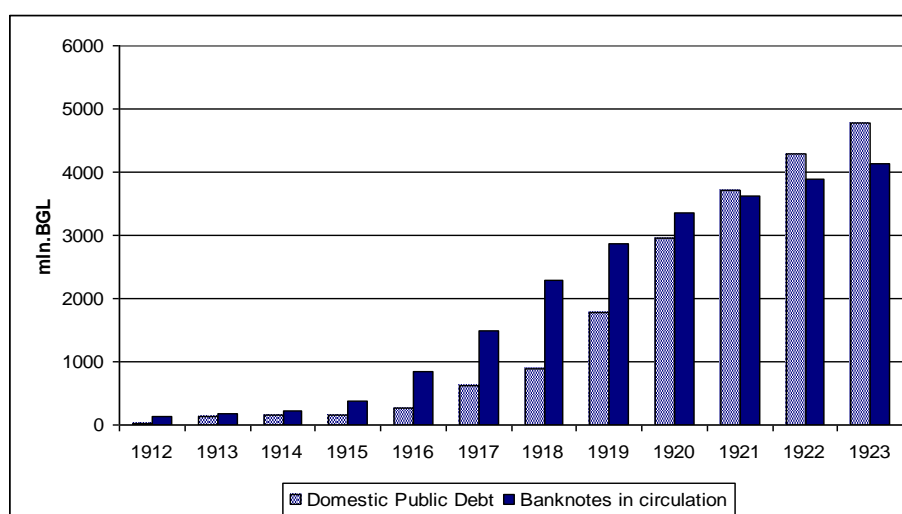
In spite of its difficult situation, Bulgaria made immense efforts to keep a record of “good” debtor who not only bore the debt burden on its own shoulders but also did not obtain any preferential debt relief (Ivanov, 2001, Ivanov and al., 2009). The convertibility of the *lev* was *de*

facto interrupted at the beginning of the wars (10 October 1912) and the unconditional government financing during the wars was suspended by the law in January 1919 (BNB, 2001, 55–56). It was assumed that the break of the convertibility rule would be temporary, like some typical short-term interruptions of the gold standard during wars or other extreme events. Later the BNB and Bulgaria as a whole lost significant sums through having its reichsmark assets blocked in German banks and subject to sharp value falls. Since these marks represented part of the coverage for Bulgarian money, this brought another blow to the lev (it is worth recalling that Bulgaria’s entry into the Great War was linked with a German and Austro-Hungarian loan and financial support worth 200 million gold francs). G. Toshev succinctly represented post-War problems thus:

“Since the War, Bulgarian economy is dominated by phenomena previously unknown to Bulgarian society. Our currency, the lev, was devalued; alongside this, its value and purchasing power experienced great changes which found expression on the one hand in constant fluctuations in the price of goods, and on the other, in large and catastrophic fluctuations in exchange rates” (Toshev 1928: 1).

As a result, the *lev* was devaluated 16.4 times for the period 1915 – 1918 (Toshev, 1928, 116, 172) and respectively 26.65 times over an extended period of years (1912-1923).

Chart 3. Public debt and banknotes in circulation (1912–1923)



Source and note: Nedelchev (1940) “Monetary Issues: Bulgaria 1879-1940”, 81, and Nenovsky, 2006, 28

After the wars, the stages of Bulgarian stabilisation followed the stabilisation processes in other countries logically and chronologically, featuring the peculiarities of the periphery and of developing countries in general⁴. As in other European countries, financial stabilisation was conducted in the context of orthodox monetary ideology, which saw a stable currency and balanced public finances as the bases of economic development. The Law on BNB dating back to 20 November 1926 is regarded as a serious step in the stabilisation process of the *lev* which constituted the convertibility of the *lev*, thus enhancing the accomplished transition to the gold-exchange standard. According to Article 8 of the Law the coverage ratio of the banknotes was designated to 33 1/3 % as it was proposed to target 40%. Although this law defined the coverage of the banknotes in circulation, it did not fix the exchange rate to gold, i.e. the gold content of the *lev* was not yet determined. With the Stabilisation Law (of 3 December 1928) the *lev* was finally and legally pegged to gold as the exchange rate of “92 *Levs* per 1 gram of pure gold” was laid in Article 1. In further details, accounting also for the BNB commissions the exchange rate of 139 *levs* per US dollar equalled 139 *levs* per 1 ½ grams of gold (which is the gold content of the dollar). The key role of the stabilization of the *lev* as a ground of the overall financial and economic stabilization is declared by the Bulgarian statesmen from its very beginning. On behalf of the central bank, its Deputy Governor Burilkov associated the stabilisation of the *lev* with the restoration of morality in business relations (Burilkov, 1928, 3)⁵. In fact, many politicians and economist in different countries used the moral and ethical argumentations for stabilising money and public budget.

Monetary stabilization provoked one of the first theoretical discussions among Bulgarian economists, namely about the level of the exchange rate fixing. This discussion, despite mainly technical one, indicates the already emerging two theoretical camps among Bulgarian economists, two camps that could be find in any other country during interwar monetary stabilization. On one side are conservatives and orthodox economists who conceiving the

⁴For detailed descriptions, see Nenovsky (2006), Koszul (1932).

⁵ In the period after the exchange rate crisis between 1924 and 1927, the money supply drastically contracted due to the restrictive monetary policy of the BNB - for example Toshev estimates that it contracted by around 1/3 (Toshev, 1928, 176–177) while prices did not decrease by the same degree. According to other authors, in order to reach equilibrium, prices should have decreased more (by around 40%) than the degree of money supply contraction (Yurii, 1923, 28).

economy having natural and long-term equilibrium suggest a return to pre-war economic variables. On the other side, there are economists who claim that the war has led to structural changes and reject the return to the pre-war nominal variables (pre-war gold parity, amount of currency circulation, etc.).

First of all, it is necessary to point out that most Bulgarian authors studying the pre-stabilisation period observed empirical discrepancies in the traditional postulates of the quantitative theory of money and purchasing power parity theory (for example Petkov (1926), Kemilev (1936), Yuri (1923)). Going back to the war years 1915–1918, Berov summarized these discrepancies with the following empirics: an increase of the money in circulation by 6.2 times, 5.5 times increase in prices and only 1.5 times devaluation of the exchange rate to the Swiss franc explaining this observation by the strong state intervention in the economy in those years (Berov, 1997, 71). According to Toshev “the barometer informing us when inflation starts to accelerate is the exchange rate” (Toshev, 1928, 114–116). And many other authors (Koszul, 1932) as well as Bulgarian economists, acquainted with the French literature (Iliev, 1930, Petkof, 1926) and analysing the pre-stabilisation period, shared the opinion that Albert Aftalion’s theoretical framework was the most logical one in explaining the failures of the quantitative theory of money and purchasing power parity theory in the interwar period.

Using the classic interpretation of stabilisation as a *credibility effect* (or confidence effect) and discipline effect, we can argue that in contrast to the dominating ideology of the stabilisation of the franc in France, the role of the credibility effect is relatively underestimated in the stabilisation of the *lev*. In other words, the Bulgarian economists and politicians underlined that the main motive behind the stabilisation of the *lev* is the management of money supply rather than the convertibility of money and the credible fixed exchange rate. The few exceptions are represented only by economists of the BNB who gave an advantage to the credibility effect achieved by the stabilisation of the *lev* while at the same time not rejecting the importance of the discipline effect. BNB economists stressed the role of confidence in the monetary stabilisation on many occasions. For example in the BNB Annual Report of 1929, the analysis of the Bulgarian economic situation at the beginning of the Great Depression points out that:

“The situation of the exchange rate and the measures undertaken by the management of the Bank has not given any reason of concern with respect to the stability of the lev. Unfortunately, such disturbing rumours have found rich ground in our society, constantly worried about some phantasmagorical threat; those rumours went abroad and caused a great damage to our financing. The management of the Bank did its best to disperse all concerns and doubts and to ensure the public that in spite of the unfavourable economic development BNB together with the contribution of other factors is capable to maintain the stability of the Lev” (BNB, 2001, 55-56).

Some Bulgarian authors, however, totally neglected the role of the credibility effect stemming from stabilisation. For example, Toshev (1928) criticised Adolph Wagner’s theory of credibility pointing out that there were objective economic laws, otherwise “scientific arbitrariness” would reign (1928, 99). He states that the volume of money is more important than the convertibility rule, “convertibility is an empty word” (178) and “the estimation of the gold content of lev is an arbitrary act” (199). Like Toshev, Nikolov argues many times that the main question is not about the coverage or whether money should be fiat or gold backed but rather about its quantity. He states that there is a “harmful psychological preference for gold money and not [for] fiat money” (Nikolov, 1927, 31–33). In his opinion, “the coverage is not equally suited for all times and for all countries” (34). Toshev (1932, 52) also agrees that the main question is “How much money is necessary for market exchange?” Although he mentions the role of credible money (as a second factor which influences the value of money together with its volume), he insists, “in the process of stabilising the monetary system, the quantity of money is more important than its coverage” (105–109).

Therefore, two different “ideological” schemes of monetary stabilisation are formed in France (dominating credibility effect) and Bulgaria (prevailing discipline effect) which predetermine to some extent (of course, together with other factors) the different approaches in the implementation of the stabilisation process in the two countries⁶. While the stabilisation in

⁶ The different features of the stabilisations comparing Bulgaria to other countries of the “Gold bloc” are subject to analysis by Sarailiev (1937, 27) who focuses on the trade-off between “Lev’s devaluation and customs’ duties acceleration” and argues in favour of the latter with view to improve the external balance of Bulgaria. According to him the first approach is like a “leap in the dark”. In Sarailiev’s book the reader can find some of the later arguments of the presence of “*original sign (or sin)*” in the peripheral countries (32).

France is more “market-oriented” and based on building credibility, the stabilisation in Bulgaria is more administrative and regulated by the state (foreign currency exchange trade monopoly imposed by the BNB, control over the capital flows, etc.), the aim of which is to establish financial discipline. In spite of the variety of interpretations, Bulgarian economists concurred in underlining the role of the psychological factors and expectations in determining exchange rate and price movements (mentioned by Chapkunov, 1936, 39).

A number of exchange controls accompanied Bulgarian stabilization from its very beginning Bulgarian and restrictions (see for more Nenovsky and Dimitrova, 2007). The Foreign Currency and Foreign Currency Receivables and Credit Trading Act were enacted on 12 December 1918. A week later, on 19 December, the Foreign Exchange Institute (*Kambialen institut*) was established with the main purpose of concentrating foreign currency inflows into the country and smoothing the very volatile exchange rate (in this respect the Foreign exchange Institute has similar role to the Foreign exchange stabilisations funds established in many countries, i.e. Great Britain). The *Kambialen institut* having failed to improve the foreign exchange market (the exchange rate was subject to speculation and induced overall economic uncertainty), new exchange controls were put into practice. On 12 December 1923 the Foreign Exchange Act gave the BNB a foreign exchange monopoly. The foreign exchange market in Sofia closed and all bids and offers were directed at the BNB. The direct reason for this early form of exchange control was the depletion of foreign reserves, mostly denominated in Reichsmarks, by German hyperinflation in 1923. Despite signing new trade agreements in August 1925 and introducing more protectionist tariffs in 1926, Bulgaria’s balance of payments and foreign currency balances did not improve. The conventional methods of restricting imports and promoting exports were no longer efficient. New measures enforcing the exchange control⁷ were introduced in May 1924, logically related with the *de facto* stabilisation of the Bulgarian lev. A 1926 law fixed the exchange rate at 139 leva to the dollar (the BNB bought a dollar for 137.20 leva⁸) and banknote cover was set at a third. In this case, exchange control genuinely fostered stabilisation which demanded foreign reserves (obtained in the form of a League of Nations’ Stabilisation Loan)

⁷ A sharp speculative doubling of the *lev* was recorded in June (Nenovsky, 2006), which hit Bulgarian tobacco sales abroad. Two types of *lev* were introduced – home and foreign – with the home *lev* becoming foreign (and usable to pay for imports) only with BNB leave. This dual national currency was not a Bulgarian invention as can be seen from the example of Romania (RIIA, 1933, p.115).

⁸ On 24 March 1926 the bid rate became 138.80, falling to 138.50 on 24 September 1926 as the BNB tried to attract foreign capital by cutting margins.

and balanced public finances with customs revenue a major item. A law of 22 November 1928 designated the BNB an independent monetary institution in the spirit of the international agreements.

It needs to be emphasised that the Bulgarian economic development can not be viewed in isolation from the political and social processes; it is integrated in the overall institutional and social environment of the country, which largely moulds the trends and forms of the Bulgarian economic thought in that period. Therefore, I will outline briefly some major events in the Bulgarian political history (for more details see MacDermott, 1962 and Crampton, 2007).

Bulgaria gained its independence in 1878 because of Russia's victory in the Russo-Turkish war and in 1885, Northern Bulgaria was unified with Southern Bulgaria, which had a different status under the Peace Treaty of San Stefano. Thus, the country took the tough road of political independence. Already from the very start, from the adoption of the first Bulgarian Constitution (16 April 1879), which made Bulgaria a constitutional monarchy, two basic streams in political life emerged: conservative and liberal. These, subsequently, dominated the country's political life (with few exceptions and some restructuring) until the end of World War I.

Interesting from a longer-term perspective is the period of Stefan Stambolov's term of office (1887-1894) who was at the head of the People's Liberal Party. During that period Bulgaria achieved an economic and social upsurge (mainly through protectionist economic measures) and gained a relative international independence (Stambolov was pro-Western Europe and against Russia). Stambolov's term of office is also worthy of note as an indication of the trend in the Bulgarian political and social system to slip into authoritarianism and political repressions. Subsequently, another typical feature of political life also made itself visible, namely, the formation of parties mainly in relation to a given political leader rather than in accordance with fundamental economic and social views.

In the face of the frequent political changes, similarly to the development in the other countries in that period, the country developed successfully economically, socially and culturally alike. The Balkan wars marked the end of this development. Despite the victories during the First Balkan War (the Balkan countries against Turkey, 1912) in the wake of the Second Balkan

(Inter-ally) War (Bulgaria against the other Balkan countries and Turkey, 1913), the country lost vast territories and economic positions (the Peace Treaty of Bucharest of 28 July 1913). An acute problem arose with the refugees from the lost territories. Seeking revenge and after much wavering, Bulgaria sided with the Central Powers and Germany in World War I. This, again, led to loss of territory and onerous financial debts.

In 1918, the Soldiers' Uprising broke out and the discredited because of the War Knyaz Ferdinand abdicated from the throne in favour of his son Boris III. The political structure changed; the authority of traditional parties waned, and new political formations emerged, which came to express the new and rising social strata and groups (peasants, workers, etc.) that were now "becoming self-conscious". After the elections in August 1919, the Bulgarian Agricultural Union and the Bulgarian Communist Party emerged as the major parties in the new National Assembly. The parties that were well-known from the pre-war period lost their sway and a number of new authoritarian and power formations were making their way into existence (such as the Military Union in 1919).

In March 1920 the elections were won by the Bulgarian Agrarian People's Union (Bulgarski zemedelski naroden sayuz, *BZNS*) led by Alexander Stamboliyski who was in office for three years (1920-1923), made a systematic attempt to apply the main principles of agrarianism and overcome the country's isolation, and signed the Neuilly Peace Treaty. Stamboliyski's regime too rested on authoritarian methods and political repressions (his "Orange Guard"). On 9 June 1923 a coup d'état was staged (by the Military Union led by Ivan Vulkov); Stamboliyski was killed and subsequently a government was formed led by the economist Professor Alexander Tsankov (as a representative of the newly established Democratic Alliance Party (*Demokratischen sgovor*)). As a reaction to this rightist overthrow, the September uprising (*Septemvriisko vastanie*) broke out (September 1923) sparked off by the ideas coming from the USSR of a new left revolutionary wave in Europe. The uprising was atrociously suppressed and in 1924 Tsankov's government adopted a law on the protection of the state against terrorists and revolutionaries, and Bulgarian communist party was banned. The communists responded with the St. Nedelya Church bomb attempt on 16 April 1925; 150 people were killed in the attack and the Tsar survived by a mere chance.

The Democratic Alliance was in power until 1931 with a more-democratic faction forming within led by the economist Andrei Lyapchev who too formed a government in 1926. It was during Lyapchev's term of office that Bulgaria overcame its financial isolation, the two loans - the Refugee Loan and the Stabilisation Loan – were granted, the lev stabilised and the economy registered growth. A note should be made here that the two prime ministers, Alexander Tsankov and Andrei Lyapchev, were economists actively involved not only in developing the country's economic policy, but also in the theoretical discussions of that time, which are examined further below.

The economic upsurge was halted by the Great Crisis; the democratic parties, form the coalition People's bloc (*Naroden blok*) (Alexander Malinov and Nikola Mushanov), won the elections. Subsequently, they were in power from 1931 to 1934. In 1932 Alexander Tsankov launched his People's Social movement much in the vein of the authoritarian regimes in Europe, Mussolini's above all. On 19 May 1934 a military coup was staged, which put an end to the short democratic period as well as a beginning of the autocratic reign of Tsar Boris (political parties including that of Alexander Tsankov were banned). Despite the desire for neutrality and the numerous political manoeuvrings, Bulgaria was gradually drawn, economically, financially and politically, into the orbit of Germany and the rest of the revenge-seeking countries, and in March 1941 Prime Minister Bogdan Fillov signed in Vienna the country's accession to the Tripartite Pact. Although not active in the military operations, the Bulgarian armies occupied the territories considered as belonging to Bulgaria in Vardar Macedonia and the Aegean region. In 1943 Tsar Boris died, Bulgaria was bombarded by its Western Allies and a partisan movement led by the Communist Party intensified in the country.

The fast advance of the Soviet Army from the north called for a change of policy. On 5 September 1944, USSR declared war on Bulgaria and the same day the Bulgarian government officially severed relations with Germany. On 9 September 1944, as a result of a coup a Coalition government of the Fatherland Front was formed. Until the end of the War, May 1945, the Bulgarian armies took part in the military operations against Germany initially on the territory of Macedonia, Serbia, and Kosovo, reaching later on the territories of Hungary and Austria. Afterwards, Bulgaria's history is clear: it took the trajectory of socialism as part of the Soviet bloc and the socialist camp.

II

Bulgarian economic thought on the eve of the Depression

So far we have presented the evolution of Bulgarian economy and overall political and institutional setting of the country since the wars. They determine the major issues facing economic science and subsequent economic policy during the Depression. These issues, however, require a certain baggage of economic and social knowledge, as well as a theoretical and intellectual stock of lore and methodology. Hence the question of the state of Bulgarian economic thought at that time and the main schools and methods which held sway on our economists. In fact, Bulgarian economists were not at all many and mainly concentrated in Sofia⁹, Varna and later Svishtov¹⁰, where higher schools of learning were located and also in some state institutions such as the Bulgarian National Bank, the Ministry of Finance, the National Statistics and some private banks. Especially active was the Bulgarian Economic Society (established in 1895 and closed in 1949), which acted as centre of numerous discussions and issued its own monthly Journal of Bulgarian Economic Society (JBES) – *Spisanie na balgarskoto ikonomichesko drujestvo* (normally 10 booklets per year) released for the first time in 1896 (Tsankov, 1926).

In the period 1929-1938 a second economic society was established (Society of Academic Economists), which set forth to resolve, in its proclamation documents at least, more theoretical tasks. The Economic Thought journal (*Ikonomicheska Misal*) came out in 4 issues per year. In my view, however, neither the authors (most of whom went down unnoticed), nor the articles in the journal are up to the needs of theory and in some respects those of Bulgarian Economic Society are even less so.

In 1935 with the help of the Rockefeller Foundation a Statistical Institute for Economic Research at the Sofia University was established (with Oskar Anderson as its director), which

⁹ In 1920 a Free University of Political and Social Sciences was established in Sofia.

¹⁰ The Higher School of Commerce opened in 1936.

became a major centre of quantitative and business cycle analyses of Bulgarian economy and brought together many talented young Bulgarian economists¹¹.

If we try to group Bulgarian scientists according to the schools, to which they belong, with all , five groups emerge.

The first group (A) comprises the older generation economists (Georgi Danailov, Boncho Bonev, Alexander Tsankov, Andrey Lyapchev, Yanaki Mollov)¹², immersed in and sharing the liberal theoretical postulates of the classical political economy, with some admixture of influence from the German historical school, and an inclination to periodization of economic evolution, evolutionism, historicism, etc. Most of them graduated economics and law in Germany or Russia. The classical school was perceived in through the prism of its German variant or the Russian interpretation, which is characterised by different types of syntheses (such as Mikhail Tugan-Baranovsky, Peter Struve, Sergey Bulgakov and others). These economists were involved in economic policy and state affairs from very early. They view the government as an important economic actor, although theoretically they do not ask themselves why it should be so. One interesting statement by Lyapchev, judging about Ivan Geshov's theoretical and practical views, goes like this:

¹¹ For details about the organisation of the Bulgarian economic thought see Nathan et al. (1973, 39-60).

¹² Georgi Danailov (1872-1939), the most prominent professor of that time, studied in Moscow (A. Chuprov, I. Yanzhul), later in Vienna, Berlin, Munich (G. Schmoller, L. Bretano, maintained especially close relationship with Werner Sombart, with whom he kept correspondence and organised his visit to Bulgaria in 1932). An interesting fact is that Danailov, who took part in the peace negotiations after the end of WWI, was a populariser of the books of John Maynard Keynes and Francesco Nitti, both criticising the viciousness of peace contracts. (Nitti, 1922, v-vi). Boncho Boev (1859-1934) studied in Moscow and Hale. He was populariser of Karl Bucher's ideas, adapted a questionnaire on Bulgarian industry after Bucher's methodology, with whom he co-authored a publication in 1889 (presumably they maintained contact). Alexander Tsankov (1879-1959) studied in Sofia, Breslau, Munich and Berlin, a long-serving politician, prime minister, died an exile in Argentina. Andrey Lyapchev (1866-1933), a politician from the democratic party, with no special economic education (a man from practice); however he attended lectures in Berlin (based on Tsankov's recollections, Lyapchev attended lectures held by the historians Traychke and Delbrück), Zurich, Paris and London and spent some time in Vienna. In Tsankov's opinion he had neither "the methods of a researcher nor the systematicity of a scholar", "a stranger to Marxism and cateder-socialism alike", a proponent of the classical theory and the gold standard as a technical and moral institution. Yanaky Mollov (1882-1947), an agrarian economist, studied in the Timiryazev Agrarian School in Moscow. The lives and ideas of many Bulgarian economists from that period are presented in Nathan, et al. (1973, 39-60), Nathan (1964), Bekyarova (2010), on Danailov see Kunev (2002), on Tsankov see Tsankov (1999 [1953]), on Lyapchev see Tsankov (1933), Bobchev (1933), Yanchulov (1933) and Bojinov (2006). See the biographies of the BES leaders, among whom Danailov and Tsankov, in the Journal of the Bulgarian Economic Society (1926): 1-48.

“Probably Geshov’s practice could have been luckier, had he not succumbed to the historical school in political economy, because by assigning too much significance to individual events the weaker minds are misled to such an extent that they lose hold of natural common sense and start using in their practical activities parallelisms instead of casting light on the path by way of general principles.” (Based on Bobchev 1933:540).

This statement of Lyapchev speaks more of his views on the method, and less of Ivan Evstatiev Geshov’s outlook (1849-1924), whose leanings, I think, are less toward the historical school than to classical political economy. Based on recollections of Geshov himself, he was under the strong influence of John Stuart Mill, and even attended Jevons’s lectures during his long stay in England (Statelova, 1994, 13)¹³.

Later, most of the economists from this group are under the influence of the marginalist school, which quickly spreads across Europe. This, however, happens through other theories and a number of theoretical syntheses (such as that of Tugan-Baranovsky who combines elements of the labour theory of value and the theory of marginal utility¹⁴). If we need to express this in figurative terms, in microeconomics these scholars are proponents of the classical school, while in macroeconomics and in economic policy – of the German historical school. Accordingly, these positions kept them away from having a special theory on crises and depressions as such issues were rarely an object of the theories they shared as it was in general assumed that economy is self-balanced. Of course, most of them were familiar with the ideas of crises proposed by Sismondi, Maltus or Marx, but these were seen more as a departure from the common rule.

The second group (B), which I would qualify as close to the previous one, consists of the more prominent proponents of the historical school, the theory of protectionism and the role of state, although they share as a whole the principles of liberal economy. These are scholars, in whose

¹³ Ivan Gueschow was mentioned in a footnote (however, the context remains unclear) by Vilfredo Pareto in his *Corso di economia politica*, Pareto (2009 [1905], 355). In his study, Pareto cited a speech that was delivered by Ivan Gueschow in the late 1895, where the latter gave a quantitative example of *agio*, i.e., of a positive correlation between the increase of agio on gold and an increase in number of silver coins in circulation (it is unclear, to me at least, whether this refers to Argentina or to Bulgaria). However, the name of Ivan Gueschow is not included in the name index of this *Corso*.

¹⁴ See Nenovsky (2009).

economic theories the classical theory component diminishes, starting earlier and at a much faster speed. Most of them graduated in Germany (not all of them though), to mention a few such as Konstantin Bobchev, Georgi Svrakov, Stancho Cholakov, Stephan Bochev, Hristo Peev, Todor Kalinov, Dinko Toshev, and Kiril Nedelchev¹⁵.

According to Kiril Nedelchev:

“...the late Professor Werner Sombart would often stress in his lecturing that the goal of the economic science is to teach us think economically and that nothing is more dangerous than our wish to apply in its entirety pure theory into practice. [...] there is no such thing at all as an eternal, fixed and best economic system. In life – that is practice – everything is relative and evolutionary; therefore in the field of political economy every phenomenon should be regarded as something new and transient, i.e., the general economic principles are limited in time and space. Hence, the conclusion that when resolving economic tasks one needs account for the conditions existing in a given place and at a given point of time.” [...] the Bulgarian economy also has its specific conditions, which we should at all times bring to the foreground when examining our economic tasks” (Nedelchev 1941: 11).

The above two groups of economists (*A* and *B*) look highly upon Werner Sombart, particularly in the last phase of his creative development when he proclaims the so-called directed, planned and social economy, organise his visit to Bulgaria in the period 25 October – 2 November 1932¹⁶ and numerous translations of his works (Sombart, 1932, 1935, 1938¹⁷). The same group

¹⁵ Konstantin Bobchev (***), Georgi Svrakov (1901-1985), defended a doctoral degree in 1925 under the guidance of Werner Sombart in Berlin. Stancho Cholakov (1900-1981) studied in Sofia and Berlin. Zhelyo Burilkov (1882-1959) studied in Geneva and was mostly economist-practician. Dinko Toshev studied in Hamburg. Stoyan Bochev (1881-1968) studied in Geneva and similar to Burilkov he was more of an economic politician (for details see Bochev, 1998). Another personality having much in common with the above is Asen Cholakov (1899-***) who studied in Munich, specialized in France and England, an author of the first systemic assessment of Bulgaria's national income and the structure of its balance of payments.

The economic historians Ivan Kinkel (1883-1945) and Ivan Sakuzov (1895-1939) studied in Sofia and Leipzig. Ivan Kinkel sometimes writes under the pseudonym Mircho Mladenov.

¹⁶ Sombart's visit to Bulgaria includes, apart from Sofia, Varna, Tarnovo and Plovdiv, as part of his tour around Europe (Sombart arrived from Budapest and after Bulgaria he visited Yugoslavia and Italy). He held lectures in the Bulgarian Academy of Sciences hall, followed by lectures in the military club. The topics of his lectures were: “The three national economies”, “Have Karl Marx's predictions come true?” and “The world crises” (see Journal of the Bulgarian Economic Society, 1932). Interestingly Alexander Tsankov (Tsankov, 1942) presents similar

of economists (notably K. Bobchev) organised the visit of the Romanian professor and politician Mihail Manoilescu in 1933, founder of an original theory of protectionism (JBES), 1933; Bobchev, 1933; Manoilescu, 1933). It would be curious to note that Georgi Svrakov, despite the strong influence of Sombart, is the most exhaustive and, in my view, prime promoter of the ideas of Keynes and his “General Theory” of 1936 (Svrakov, 1938)¹⁸.

The third group of scholars (C) are entirely proponents of the subjectivist school and methodological individualism in its Austrian variant, and they consistently apply its methodology (these are Simeon Demostenov, Dimitar Mishaikov and Naum Dolinsky, at least in the beginning¹⁹). Naum Dolinsky reviews Boris Bruzku’s book “Die Lehren des Marxismus im Lichte der Russischen Revolution” issued in German in 1928 in Berlin, which was later on popularised and issued with a foreword by Hayek who expounds the fundamental economic infeasibility of building planned economy and socialism in Russia (Dolinsky, 1930). Dolinsky shows the relationship of the book with Ludwig Mises („Gemeinwirtschaft”, 1922) and Peter Struve’s ideas (“Economy and price” („*Hozrastvo i cena*”, 1913). Most of the authors in group B, especially Demostenov and Dolinsky, virtually do not take part in the practical life and remain armchair scholars²⁰. As to crises, while not presenting special studies, they nevertheless share the approach of the monetary explanation of overinvestment and bad investment, which is

argumentations and classifications of different economies in his book “The three economic systems: capitalism, communism and national-socialism”.

¹⁷ See Mladenov (1935), (Mircho Mladenov is a pseudonym of Ivan Kinkel).

¹⁸ Apart from the inclusion of some of Keynes’s postulates in Slavcho Zagorov’s article dedicated to the new ideas in political economy. (Zagorov, 1933), and the paper by N.K. (1936), in which the author, while referring to some of Keynes’s ideas about the instability of money velocity and money demand, criticises the econometric analysis of the quantitative theory made by Oscar Anderson based on Bulgarian data, thus implying invariability of money velocity. N.K. quotes Keynes’s General Theory (p. 39), which he does in his second paper in 1938 as well (N.K., 1938).

¹⁹ Dimitar Mishaikov (1883-1945), pupil of G. Danailov, studied in Sofia, Munich and Berlin. A special evidence of his following the methodology of the subjectivist school in a Mengerian variant is his textbook “Fundamentals of political economy” (Mishaikov, 1943) and “A short course in theoretical political economy” (1926)), the abridged edition of Mishaikov’s textbook. Naum Dolinsky (1890-1968) studied in Saint Petersburg (Struve) and later in Prague (Wieser). Simeon Demostenov (1886-1968) studied in Saint Petersburg (Struve) and later on in Berlin (1912-1914).

²⁰ This in my view is Simeon Demostenov’s personal choice who, being a foreigner, felt more comfortable in the field of theory, although he held important economic positions in Russia during the war and made one of the most interesting and painstaking microeconomic analyses of the behaviour of prices and foods (Demostenov, 1930, [1915]). Demostenov’s works, being a paragon of application of the Austrian subjectivist school, and the fact that Demostenov made a very to-the-point and well-grounded critique of Marx’s theories were perhaps the reasons why they fell under the ideologised critique of Bulgarian Marxist economists. An example of this is the last chapter of Evgeni Mateev’s book (1947), which otherwise offers an highly erudite (given the level of Bulgarian Marxists) critique of the subjective theory of value.

genetically induced from the types of goods and the structure of the investment process (these theories are developed by Ludwig Mises, Friedrich Hayek and other German and British economists). One of the most interesting and original economist of this group is Simeon Demostenov, an exceptional authority on the history of monetary theories and proponent of the Austrian school, who criticises and develops further the Austrian theory of money and value along many lines (his theoretical exchanges are mostly with Carl Menger and Ludwig von Mises). Demostenov is the author of the original theory of monetary universals (“*Universale monétaire*”), general concepts and categories of money), which determine the global-to-national money ratio and the substantialism, nominalism, or functionalism of monetary theories, respectively, as well as the author of the functional interpretation of money as a “universal and immediate instrument of demand”. In the summer of 1913, while still a Russian citizen, he worked in Menger’s private library, and most probably during that stay, he attended Carl Menger’s private seminar²¹.

The fourth group of scholars (D) is mostly comprised of the younger generation, whom I could conditionally call monetarists and quantitative economists (Slavcho Zagorov, Asen Hristophorov, Ivan Stefanov, Asen Chakalov, Zhelyo Burilkov, Nikola Stoyanov, Asen Kemilev, and Asen Ivanov).²² For their greater part they are under the influence of quantitative methods and the newly emerged business cycle analyses. Asen Hristophorov is among the few Bulgarian economists who studied in an English university (The London School of Economics, 1931-1934**) and who fell under the influence of economists in the vanguard in the field of monetary theory and economic cycle (Hawtrey, Pigou, Canon, and later Keynes. Through Hayek, who was in that period very popular in England, he also took many ideas of the cycle from the Austrian school, which he applied at a later stage in relation to war economy and in analyzing the role of central bank monetary discretion (Hristophorov, 1943, 1946). Slavcho Zagorov, who studied in Germany and was for a period of time director of the Bulgarian

²¹ See Demostenov, S., *Essays on the Theory of Money*, Part I, Sofia Royal Press, 1937, 101.

²² Slavcho Zagorov (1894-1965) studied in Bern, Insbruk and Leipzig and served as director of the National Statistics Institute. Asen Hristophorov (1910-1970) graduated from the London School of Economics. Ivan Stefanov (1899-1980) studied in Berlin (with L. Bortkevich as his mentor), held left ideas and was member of the French, German and Bulgarian communist parties already in the 1930s.

Statistics Institute, was in correspondence with the leading econometricians of that period²³ and published an article about the prices in USA in the Journal of Political Economy (Zagoroff, 1934).

The above economists, under various forms, are under Oscar Anderson's (1887-1960) influence in the institute run by him²⁴. Famous economists – specialists in business cycle analyses, visited the institute: Oskar Morgenstern, for instance, held two lectures on 2 and 3 of April 1935 (Morgenstern, 1935, 1936). The famous Russian economist and white émigré Peter Struve, who worked in Belgrade at that time and was not exactly specialist in business cycle, also had to hold a lecture on the topic (Struve, 1937). To the majority of economists belonging to this circle the problems of the crisis genetically relate to those of the cycle; the crisis is a phase of the cycle; crises are not fundamentally structural; they are not systemic and can be understood and analysed in quantitative terms (by means of constructing a set of indices through different statistical techniques). Certainly, the strong influence of the new German theories of the new phase of directed economy and Bulgaria's inclusion into the German economic zone can not but impact their publications and analyses.

The last and fifth group (E) includes the adherents of Marxism in its more orthodox forms, such as Karl Kautsky²⁵, Rosa Luxemburg, Hobson and Lenin's theory of imperialism, or Hilferding's²⁶ financial capitalism. A prominent figure here is Dimitar Blagoev (1856-1924), founder of Marxism and first translator of *Das Kapital* in Bulgaria. Among the names in this group we could mention Vassil Kolarov, Hristo Kabakchiev, Georgi Bakalov, Georgi Dimitrov,

²³ For instance, Oskar Morgenstern's archive in USA contains three letters from Zagorov to Morgenstern (dated 5 August 1935, 6 and 26 July 1937) and two from Morgenstern to Zagorov (dated 30 August 1935 and 28 July 1937). The archive also contains a letter from Konstantin Bobchev (of 10 September 1937).

²⁴ For details see Wold (1961), Fels (1961)

²⁵ Kautsky's book "The Economic Doctrines of Karl Marx" was translated in Bulgarian in 1896. Of the Russian books in political economy especially popular was Alexander Bogdanov's textbook "A Short Course in Economics", published in 1898 (only a year following its first issue in Russian). All Marxist authors (in addition to the above we could mention Hobson, Hilferding, Parvus, Gabriel Deville, partly the Russian sociologist Maxim Kowalevsky) were actively popularised by Dimitar Blagoev who was well familiar with the economic theories of that time.

²⁶ Indeed, there is a group of scholars within this stream who share some of Eduard Bernstein's revisionist ideas and of other reformist socialist movements.

Todor Pavlov, Todor Petrov and G. Toshev (Yurii)²⁷, although most of them are not professional economists, but mainly jurists or political figures associated with Soviet Russia. In 1933, during Werner Sombart's visit to Sofia, Ivan Stefanov (under the pseudonyms N. Kovachev and V. Borisov) and Jacques Nathan (pseudonym B. Kamenov), Sava Ganovsky (pseudonym Trudin) published a critique of Sombart from the standpoint of Marxism (see for details Trudin, 1932/1933; Borisov, 1932/1933; Nathan, 1964, 66-67; Nathan, et al., 319-524). These economists have thorough knowledge of Marx's theory of value and added value, its laws of the economic and social evolution and formations – productive forces and relations of production, foundation and superstructure, and class struggle²⁸. They are familiar with Rosa Luxemburg's new studies on capital accumulation and Vladimir Lenin's works on imperialism and his theory of the general crisis of capitalism. The crises in this model are seen as a genetic extension of the contradictions of capitalism expressed in a concentrated form as contradiction between “the social character of development of productive forces and the private capitalist mode of appropriating goods,” between overproduction and under-consumption of workers who do not obtain the full product of their work, as well as the increase of the organic composition of capital and the different types of disproportions between subdivision I and II²⁹.

²⁷ Vasil Kolarov (1877-1950) studied law in Aix-en-Provence and Geneva. Bulgarian politician and international communist functionary (was well familiar with the subjective economic school in its Austrian variant). Georgi Dimitrov (1882-1949), Bulgarian politician and international communist functionary, General Secretary of Comintern. Georgi Bakalov (1873-1939) obtained his education in Geneva, a historian. Hristo Kabakchiev (1878-1940), lawyer and international communist functionary, studied partially in Geneva. As could be seen, a large part of the Bulgarian Marxists obtained their education in Geneva, where they associated with different representatives of left movements. It is interesting to note that Soviet diplomat and politician of Bulgarian origin Hristian Rakovsky (1913-1941) made a number of interesting analyses of the development of European economy between the Wars. Sava Ganovsky (1897-1993) studied in Halle, Berlin and Moscow in the post-communist academy, where Todor Pavlov (1890-1977) and Jacques Nathan (1902-1974) lectured and studied, respectively. Ivan Stefanov (1899-1980) studied in Germany; after his active youthful years in the German and French communist parties he worked for a short period at the Soviet embassy in Germany to become later a prominent finance, banking and academic figure in Bulgaria.

²⁸ See Grigorov (1946) who makes an erudite overview of the various approaches to the periodization of economics and the place the formational approach has in these theories.

²⁹ See the presentation of the Marxist principles and a number of other social reformist and authoritarian doctrines made in the period studied by Ivan Kinkel (1939) and the articles by Borisov (1932/1933; a; c) and Trudin (1932/1933; a). The orthodox Marxist theory of crises and cycles is given exhaustively in the three volumes by L. A. Mendelson (1959 [1949]).

In order to propose more information about the five groups mentioned, Table 3 below systematises the economic approaches of Bulgarian economists, which serve as factors in their interpretations of depression.

Table 3 Main micro and macro elements of the five groups Bulgarian economist

| Groups | Theory of value (micro) | State (government) role (macro) |
|---|--|--|
| A Classics and classical school | Objective, labour theory of value (Smith, Ricardo, Mill, Tugan-Baranovsky); classical postulates; <i>Later on some elements of the subjective theory of value</i> Positivist methodology (history, empirics) Sometimes moral postulates | Stable money Balanced budget State is important |
| B Historical school | <i>No significant discussion of the theory of value</i> Positivist methodology (history, empirics) Sometimes: moral postulates; comprehensive sociology and economics (Sombart style) | State is important Protectionism Industrial politics |
| C Subjective school; | Subjective theory of value (Austrian variant) Apriorism, logical postulates Rarely – moral postulates | Small state <i>No significant discussion of the role of state</i> |
| D Monetary and quantitative methods | Subjective theory of value Positivist methodology (mainly empirical quantitative verification, statistical tests) | Intervention of state is inevitable; economic analysis of business cycle and active cycle management <i>No significant discussion of the role of state</i> (but scientific State management is assumed) |
| E Marxists | Objective labour theory of value and added value (Marx, Blagoev) Positivist methodology (mainly history, but also empirical verification) Sociological approach | Dialectical materialism; Contradictions between: “productive forces and relations of production”, “economic foundation and superstructure”, “social character of production and private form of appropriation”; State is a part of the apparatus of exploitation used by the capitalist class; State-monopolistic and finance capitalism; imperialism. |

С настъпването на кризата и нейното задълбочаване, разнообразие от възгледи и нюанси бързо се стопява и икономическите възгледи на българските икономисти до голяма степен се унифицират. Още в самото начало се оформят две основни интерпретации за причините и за същността на Голямата депресия. Двата модели излагаме в следващата глава.

III

Two interpretations of the Depression: cyclical and structural

We can differentiate mainly between two large models explaining the Great Depression. These not only undergo serious evolution, but their trajectories often intertwine. Changes in the proportion between the two basic interpretation models are explained with the development of the economic crisis itself, its phases, stages, and forms, with the changes in the economic policy in the country and abroad, and the assessment and explanations of the crisis made by the scholars in the western and Balkan countries.

In most general outlines, the two major models could be formulated as follows. The first model views the crisis as a natural point in the development of market situation (at the beginning agricultural one) and looks upon it as a cyclic and transitory phenomenon, which will pass without changing the essence of economic mechanisms³⁰. No need of any interference from the outside in the market mechanisms and forms of private property. We could refer to this model as a *cyclical model*. The second model interprets depression as a fundamental structural breaking leading to irreversible long-term changes both in purely technological terms and in terms of the mechanisms of economic coordination (active involvement of state, changes in the forms of ownership, social and political differentiation etc.). Let name this model *structural*. Both the reasons and mechanisms of crisis at a particular level correspond to the philosophy and spirit of the two models. The first model deals with market issues, agricultural or other markets, and the descriptions are within the framework of prices and quantity movement. The second approach sees beneath the movement of prices a deep change in the character of economic processes and dislocation of global economic and political balances. I'd like to add that these two interpretations, two models, obviously with some differences, could be discovered in others countries, see for Serbia Josifidis and Losonc (2010), for Turkey Ozveren (2010), or for Romania Bobulescu (2010).

³⁰ See for example Shishmanov (1932).

For analytical purposes the cyclical model can be split into two variants, both of them declare that there is no need for intervention into the market process. The first one is more descriptive and empirical and is in the line of the Mitchell and Burns efforts to build different indicators that capture the business cycle development. The second variant is represented by the monetary interpretation of the business cycle in the spirit of the Austrian school.

The structural model takes different forms too. Leaving aside the Marxist variants, two others forms appeared. The German and Italian directed economy model was chronologically first and looked at the state intervention more in political and moral term stressing the urgent necessity to regulate supply side of the economy through the nationalisation and protection of national industry. Sociologically the state in this model was considered as an incarnation of the national spirit and class pacifier. As far as this model rapidly transformed into totalitarian forms, the Keynesian model was established. The Keynesian model declared the need for preserving democratic principles. The economic side of this model was more oriented to demands side manipulations through deferments methods (monetary and fiscal) but always based on scientific and technical models and statistical measurements. Briefly, when the German Italian model of planned economy could be named political and moral (at least in intention), the Keynesian model of managed economy could be called scientific.

At the start of the crisis the cyclical model includes most of the economists from group *A*, *C* and *D*, as well as a part of *B* (historical school). The second structural model includes the majority of the historical school representatives (group *B*) and the Marxists (group *E*) with both groups having their own reading of changes: the first in a strongly evolutionary vein, while the second see the birthing of a new communist system.

Over time, in parallel with the intensification of the crisis, most of the scholars of the cyclical interpretation (*A*, *C*, and *D*) evolve in a direction to a structural understanding of the depression, with the exception of a few of the most radical representatives of the subjective school *C*, such as Simeon Demostenov.

The change in the perceptions of crisis was gradual and with certain twists and turns as Bulgarian economists had to take clear positions with regard to Marxist assertions of private

property abolishment and building a socialist society. This could be clearly seen for example in an article by Todor Kalinov (Kalinov, 1932 (written in 1931), 26-27), where he states the dilemma: “cyclical interpretation or socialist theories”, and while disinclined to accept the Marxist theses, he nevertheless admits that

“[...] it seems that the principle of unlimited free competition as a panacea for curing economic crises and in general for directing economic life appears nowadays to be already an anachronism, a relic from the past” (Kalinov 1932: 25).

Kiril Nedelchev, in his turn, is definite:

“Neither freedom, nor equality can ensure the order needed for the economic development of nations. In fact, the world has never seen full freedom and full equity. Pure capitalism, just as pure communism, is only a fiction, a utopia, because they can not create order, and order means subordination: there is no creativity without order” (Nedelchev 1941: 13).

Konstantin Bobchev, who was to become later a major mouthpiece of the models of directed economy (or state supervised economy) and protection of Bulgarian industry, in the beginning of the big crisis (1931) was still sceptical about the possibilities the state could command have in economy. Having defined various types of “economic imbalances and economic contradictions” relating to the mismatch between demand and supply (Bobchev, 1932, 56-57), he observes that the state gives faulty signals by trying to hold back prices from falling.

“And in this mechanism, instead of doing away with weaknesses, the state aggravates them further: when prices start falling – a signal that production must be cut down – the state starts looking for artificial measures to keep prices high and continue production at previous levels; when a given production has favourable outlooks to grow, the state starts by every means possible to encourage it, rather than guard it against extremes” (Bobchev 1932:58).

As mentioned earlier, the assertion of the structural model inevitably leads to its breaking down into sub-models and radicalising the positions within the three main alternatives. For example, the Marxists group *E* assumes extreme revolutionist interpretations of the depression. The rest (*A*, *B*, *C*, and *D*), in turn, evolve toward acceptance of the Keynesian model (further developed into his *General theory*) while looking for alternative to the German model of planned economy and the Marxist and Soviet interpretation of the historical moment. This direction of evolution is followed by Georgi Svrakov and Slavcho Zagorov, Asen Hristophorov, etc. As I mentioned earlier, Zagorov and Svrakov were the first to introduce Keynes's ideas. To the very last (or until his immigration at least) Slavcho Zagorov remained true to the quantitative theory of money despite Keynes's criticism. An evidence of this is Zagorov's theoretical article of 1935 entitled: "System and level of prices", in which he examines the relationship between relative prices and the overall price level. The article is an indication of the fact that Zagorov holds the dichotomy of the classical model as true (or at least not effective over the longer term), namely, that money supply does not affect relative prices and that a distinction should be made between changes in relative prices and changes in the overall level of prices. I would note that this assertion is in full contrast with the outlooks of the Austrian monetary school developed in that period which hold that such distinction is not possible and that money is not neutral.

Asen Hristophorov, in his turn, having set an example of quantitative analyses of conjuncture 1934-1939 in his book "The business cycle in Bulgaria, 1934-1939" (Hristophorov, 1939)³¹, in his book on the political economy of war (Hristophorov, 1943), despite the subtitle "Theory of war-time economic conjuncture" is clearly on the path to analysing the deep, essential changes occurring in the economies during that period. To Hristophorov, war economy in its various phases – pre-war, administrated quasi-war and managed-war economy – are different stages toward irreversibility with regard to more intervention from the state. In conclusion he says:

“Because even a complete turn to economic and political liberalism could not eradicate the morals from the experiment with the war-time capitalist socialism or stamp out the economic and social benefits for the general population during the war-time period, which brings the regime of centrally planned and managed war economy close to the

³¹In its greater part the book came out in the form of articles and reviews before 1939 in the Bulgarian economic journals – the BES and the Statistics institute journals.

respective regime in the collectivist socialist economy. Times change...” (Hristophorov 1943: 364).

I should mention also that in this book Hristophorov almost entirely steps on the methodology of monetary theories of over-investments and structural changes in the production process, mostly of the Austrian school on economic cycle and forced saving (F. Hayek, “Prices and Production”, 1931; “The Monetary Theory of the Trade Cycle”, 1933; L. Mises, „The Theory of Money and Credit”, 1934). Clearly, this methodology gives more possibilities than the quantitative measurements of the conjuncture in the first studies of the author. The original and brilliant application of the methods and techniques of the Austrian school in the analysis of war economy is in my view an exceptional contribution although in that period such publications were common (Lionel Robbins; Arthur Pigou, André Piatier, Simeon Demostenov, Konstantin Bobchev, Stancho Cholakov). It is also interesting that the book often refers to Keynes, mainly his earlier works: “A Tract on Monetary Reform”, 1929; „A Treatise on Money”, 1930; and “Essays in Persuasion, 1931. The *General theory* is cited only once (p. 121). Overall, Hristophorov does not take sides as regards the debate between the Austrians and Keynes about the economic cycle (as we know the debate was very substantive and sharp in that period). My explanation is that he regards both approaches as rightly directed toward analysis of the deep structural changes in the then economies.

It might be interesting to note that none of the Bulgarian economists was critical of Keynes’ philosophical and technical concepts or held a view in favour of a return to the practice of classical market and monetary economy and of the genuine and full-value gold standard. I will remind that few as these may be, such economists do exist in other countries, Jack Rueff³² for one, Luigi Einaudi, Michel Heilperin and certainly the Austrian school representatives³³. In Bulgaria, a definite exception from the rule is Simeon Demostenov, who, as I already mentioned, was a staunch supporter of the Austrian school. Some reserves with regard to Keynes’ technical models (in particular the possibilities of the central banks to discretionary

³² Baudin (1938). Later Jack Rueff criticises the gold-exchange standard for undermining the principles of stable money and because of its pyramid structure of generating money (e.g. the use of the dollar as a unit of reserve, which is in turn based on gold), leads to asymmetry of the equilibrium mechanisms, disproportions, and ultimately to the creation of “fake money and savings”.

³³ See Nenovsky (2009).

impact the credit and the cycle through interest rates manipulations and open market operations) can be found in one of Hristophorov's last studies (1946)³⁴.

Graphically, the evolution of the five groups of economists in the coordinate system of the two explanatory models could be presented as follow:

³⁴Looking from the perspective of modern interpretations of the Great Depression, which emerged chronologically later, most of these can be found, in some form or another, in the publications of the economists of that time, including in Bulgarian studies. Just to briefly remind that today's interpretations could be narrowed down to a few, namely, monetary (either in terms of money supply as in Milton Friedman and Anna Schwartz, or from money demand perspective as in Peter Temin), either within the framework of the Austrian variant of monetary theory of over-(and/bad) investment (Murray Rothbard), or the financial instability of the American financial system (John Galbraith and Hyman Minsky), etc. (for details see Hautcouer, 2009; Musolino, 1997). See Robbins (1935); Galbraith (2008 [1954]); Friedman and Schwartz (2008 [1963]); Rothbard (2008 [1963]); Keynes (2009 [1930]); Temin (1976); Minsky (1982); Eichengreen (1997 [1996]), and Kindleberger (1978; 1990 [1973]).

Chart 1 Evolution of Bulgarian Economists

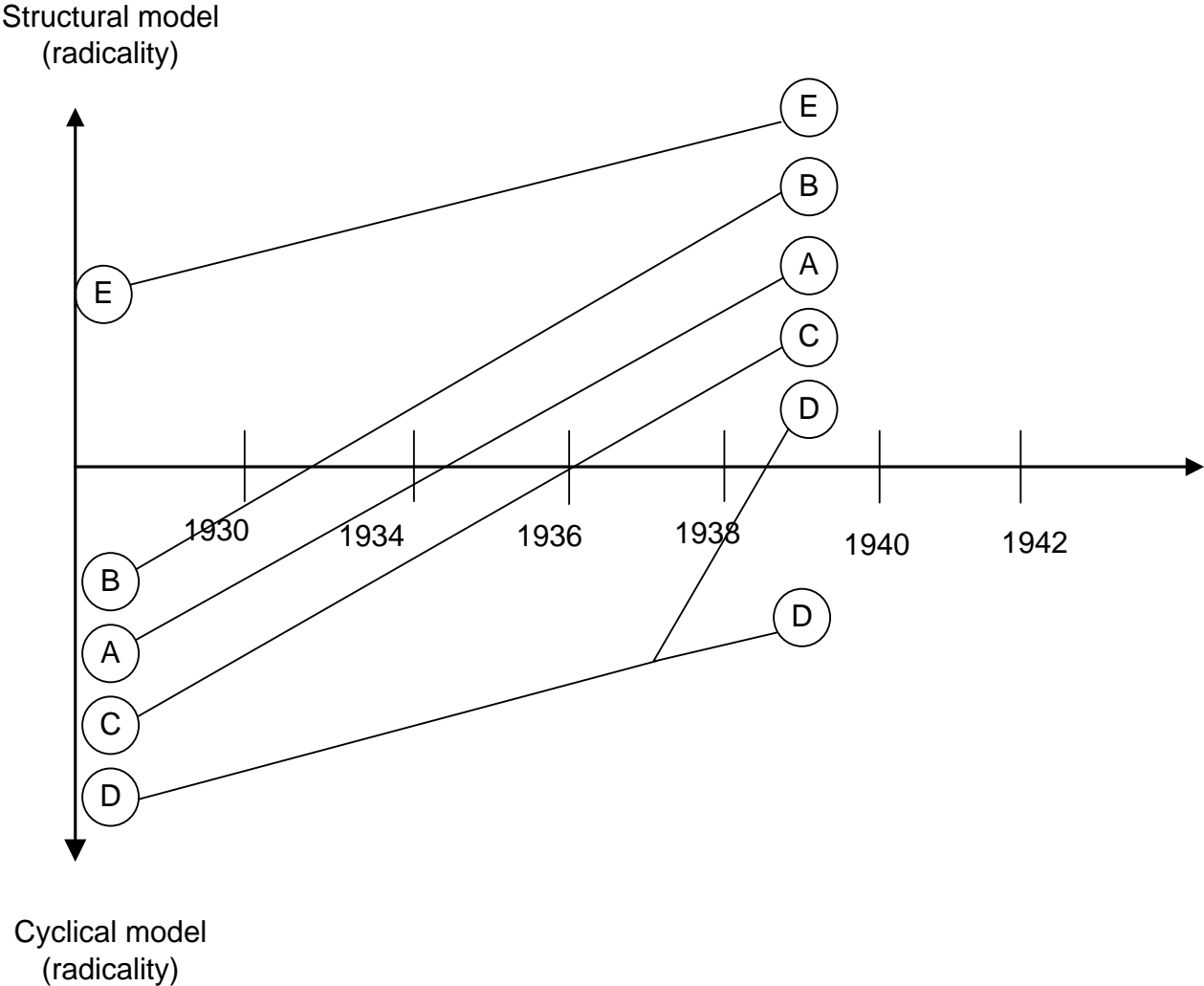
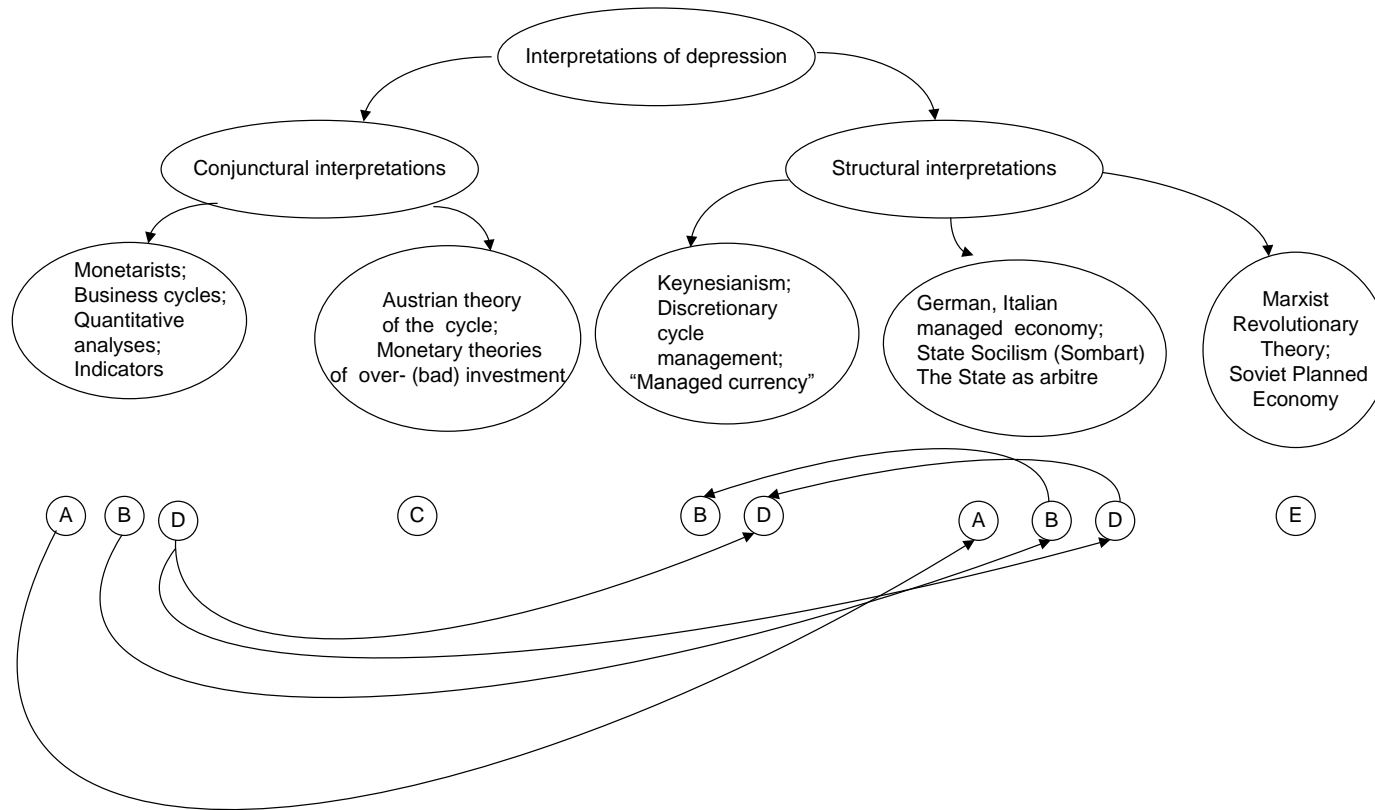


Chart 3 Interpretations of depression – topology



This classification exposed many questions arise all of them linked in one or another way to the main issue of the evolution of Bulgarian economist thinking through the different phases of Depression.

To appropriate approach could be to link the theoretical evolution to the evolution of the Great depression and the crisis themselves. The phases of the crisis and the perception of the crises respectively could be brought to four: (i) agrarian crisis and price deflation; (ii) crisis of the U.S. financial markets; (iii) the bank crises in Europe and currency devaluations, and lastly, (iv) adoption of exchange control, protectionism, joining the administrated and clearing German zone. We are interested in three of these (i, iii, iv); the second phase (ii), or the crash of the stock exchange markets across the ocean, does not have direct reflection on the Bulgarian economy and so does not stir lasting interest among Bulgarian scholars. The three phases of interest to us (i, iii, and iv) also highlight three major points in the evolution from cyclic interpretation of the crisis to the perception of fundamental changes in the economic system.

IV

Agrarian crisis: from cyclical to structural interpretations

In 1928/1929, prices of agricultural products began to fall sharply on international markets, which worsened the revenues of the Bulgarian exports (Lyapchev 1930, Tsankov, 1932)³⁵. On the Commodity stock exchange markets in Varna and Burgas grain prices fell more than 50% (Bliznakov, 1931, 287). This threatened foreign currency reserves and respectively the servicing of the huge external debts. The price developments cancelled plans for the liberalization of foreign trade and measures for trade and exchange controls are strengthened. Thus followed the 1928 Wine Export Promotion Act, the 1932 Grape Export Promotion Act and the 1935 Meat Export Promotion Act. In 1931 an Export Institute was set up, transformed in 1940 into the Foreign Trade Institute (*Institut za vunshna turgovia*). Earlier, in 1930 the Food export agency (*Hranoiznos*) was established and vested with monopoly powers to buy and trade cereals as a specific tool against deflation. Because of the negative price gap between buying and selling prices, losses were accumulated and transferred to the budget. Initially half and then a quarter of the payments to farmers were in treasury bonds representing domestic government debt, which amounted to around 400 million gold leva (Berov, 1989, 465).

Alongside export encouragement, import restrictions were more often and more effectively used. It is interesting to point out that customs tariffs between 1918 and 1930 always involved administrative exchange rate manipulations. The customs exchange coefficient (the rate at which paper leva were converted into gold leva for the purposes of customs duties) was significantly different from the market rate. According to Toshev, government managed to increase tariffs by 80 per cent over just two years (1926 and 1927) through such manipulation. Exchange premia, introduced for a limited number of private deals in 1933 and broadening considerably by 1935, acted in the same direction of depreciating the lev, 'circumventing the fixed exchange rate,' loosening deflation, and enhancing the inflow of convertible gold exchange (see table 3 and box 1). By performing a 'market-determined' depreciation of the official BNB rate, exchange premia

³⁵ On the mechanisms of the agrarian crisis, see also Robbins (1934), Delesi (), Madsen (2001), Hautcoeur (2010).

gave exporters the stimulus to export more at lower prices (for more about exchange rate development during the whole period see charts 4 and 5)³⁶.

Table 3 Bulgaria: customs (import) coefficients and official exchange rate of the paper lev (1918-1930)

| 1918 | 1919 | | 1920 | | | 1921 | | 1922 | | 1928 | 1930 |
|---|-------|---------|------|-----|-------|------|------|-------|------|--------|------|
| 15 XI | 1 VII | 15 VIII | 1 XI | 1 I | 1 VII | 1 I | 12 X | 1 VII | 30 X | 26 VII | 3 VI |
| Customs coefficient | | | | | | | | | | | |
| 2 | 2.5 | 3 | 5 | 6 | 7 | 9 | 12 | 14 | 15 | 20 | 27 |
| Exchange rate of the paper lev | | | | | | | | | | | |
| 1.66 | 4.22 | 4.22 | 6.05 | 8.2 | 8.96 | 13.5 | 28.2 | 29.94 | 32.3 | 27 | 27 |
| Exchange rate of the paper lev/ customs coefficient | | | | | | | | | | | |
| 1.20 | 0.59 | 0.71 | 0.83 | 0.7 | 0.78 | 0.67 | 0.43 | 0.47 | 0.46 | 0.74 | 1.00 |

Source: Toshev (1943), 67.

Box 1 Import tariff, exchange rate premium, and real exchange rate

Let consider trade and exchange control together, that take the form of using together import tariff and currency premium. If t is the tariff and φ is a currency premium (usually $\varphi \geq 0$, but it could be $\varphi < 0$, in the case of the sperrmark in Bulgarian private compensation market after 1935, for example). Considering tariff as an addition to the foreign price level P^* (P is domestic price level), and the currency premium as an addition to the nominal exchange rate level e , the well known formula for the real exchange rate e_r , became:

$$e_r = \frac{e(1+\varphi)/P}{1/P^*(1+t)} = \frac{eP^*(1+\varphi)(1+t)}{P}$$

The condition for real depreciation of the national currency (gain of competitiveness) is:

$$(1+\varphi)(1+t) > 1$$

$$\text{or } t > \frac{-\varphi}{1+\varphi}.$$

³⁶ For more information on this question, see Nenovsky and Dimitrova (2007).

The fall of agrarian prices makes Bulgarian economists call the crisis agrarian and they focus on the fall of prices. Thus, for instance, Yanchulev (1930, 245-246) in his report read in March 1929, says:

“The agrarian crisis [...] in general is seen as such state of agricultural commodity prices whereby the farmer is not able to cover with his incomes the costs of running his farm in addition to tax and other social burdens”. (Yanchulev 1930: 245-246)

In quite a similar vein are the analyses of the other economists (Lyapchev, 1930; Dolinsky, 1931; Yaranov, 1931; Tsankov 1929 (speech of March 1928), Tsankov 1932 (speech from 1931)) with debates going on about whether this was a crisis triggered by overproduction and protectionism in the USA and Canada. Alternatively, a decline in the purchasing power in Europe due to the reparations and debts owed to the States, in the spirit of some proto-Keynesian analysis of efficient demand. Although most Bulgarian economists considered the crisis imported, an opinion was gradually formed that purely internal reasons also existed – in the face of deformity and one-sided development of Bulgarian rural economy (strong swings back and forth between tobacco and grain), its fragmentariness and lack of machinery, and the artificial growth of credit (see Tsankov, 1932). It is Yanchulev again who says: “The agrarian crisis in Bulgaria is therefore cyclical and structural” (1930, 262)³⁷ and on another occasion: “An expansion of credit in both the village and town could breed nominal owners, thereby entailing vastly perilous consequences for the petty peasants” (1930, 272). Dolinsky (1931, 27-28) sees the reason for the crisis “lying deep in the soil of the national economy” with the international situation only speeding up its emergence”. He believes that “organizationally and technically the Bulgarian rural economy is in sharp discrepancy with its socio-economic character”, plenty of work force and little capital, Dolinsky (1931, 30-32). Yanchulev holds the view (March 1929) that the export of agrarian products should be organized by producers themselves, either through co-operations or unions, not the state, “which is a collectivist institution and as such is not appropriate for the future activity” (Yanchulev (1930, 265)).

³⁷ Curiously, the Marxist theoreticians of crises (L.A. Mendelson for example) also maintain the existence of two types of agrarian crises: one cyclic – crisis of reproduction, and one structural – stemming from the very nature of capitalism penetrating in agriculture.

Andrey Lyapchev (1930) makes an interesting sociological, and from modern perspective, political and economic analysis of who benefits and who loses from the fall in prices by grouping in a very curious way the household's farms and the number of people who suffered losses³⁸. He is a liberal who believes that the main reason for the short-lived decline in prices is precisely because they were long and artificially maintained at abnormally high levels. Lyapchev points out those prices in 1928 were by 50% higher than pre-war levels, and the decline is therefore natural. He is against prices being centrally set by the state, because

“if the state takes it on itself to determine prices, the outcomes are clear: production would be slack because guarding as the state may be, it will still hold to low prices” (Lyapchev 1930: 501).

Lyapchev sets forth the basic liberal principles: “in order for any support (subsidy) to be real, it should be paid (by someone)”

“the individual is entitled to demand from the state to protect his life, but not to guarantee him profits”; “does the happiness of the people sit in low or in high prices? – I think it's in low prices”; “the state must be in the position of one who would substantiate his needs, rather than in the position of someone who would take more and then give charity” (Lyapchev 1930: 503-506).

The redistributionary processes in the Bulgarian economy also closely relate to analysis of the so-called *price scissor*, i.e. the mismatch between prices of agricultural goods (export mainly) and prices of industrial goods (import mainly) (Bobchev, 1934). The former fall, while the latter stay at a given level and even go up. This keeping of industrial prices at a level is explained with the existence of cartels and the protectionist policy of the state (the infant-industry theory). Many economists tried to outdo each other in constructing indices suited to measure this gap (remarkable in this respect are the studies of some representatives of the Statistics Institute, N.K, 1936, 1938, and some others such as Bobchev, 1934; Dochev, 1938, etc.).

³⁸In this period, Bulgaria, according to Lyapchev, had a population of 5 500 000 gathered in 735 000 households.

The agricultural crisis was seen in a much wider context, mainly in relation to its consequences for the country's trade balance and its ability to raise foreign currency proceeds to service external debt (pre-war debts, reparations and stabilisation loans). Telling in this respect is Dolinsky's article (1932), where he specifies the upper cause-and-effect chain and terms the crisis "structural", not "cyclical"³⁹. And according to the end result of his calculations (forecasts of the export volume with a price index in gold and 1914 as a base, and a burden of payments – interest and annuities), Bulgaria is unable to service its obligations and has to, at least for some time ahead, suspend payments⁴⁰. As is known, the debt issue is critical for the country at that point, and the debt restriction dictates the major behaviours and policies. It is also integrally related with the good functioning of the lev, fixed to gold at the foreign reserves level, as a source of trust and credibility.

On the other hand, an active discussion begins of the possible consequences for the debt burden, the danger of bankruptcies, social turmoil, and undertaking a set of measures to counteract the fall of agrarian prices, and debt reliefs for the peasants (the so-called tax bonds). A number of authors note the mechanisms of debt deflation, later on conceptualised by Keynes (1931) and Fischer (1933). The approaches here are hesitant, and although these reliefs were not approved at first (see the counter-arguments by Dolinsky, 1931 and the criticism of the laws proposed by Zagorov, 1933), over time they came to prevail and two laws were adopted (see Palazov's arguments and calculations, 1932). The laws enacted were the Farmers Protection Act and the Debtors Relief Act. Iliya Palazov rightly observes the existence of what we would call today asymmetry of information and moral hazard on part of debtors when debts are remitted on a general basis (there again, 214-215). The same mechanism of anti-selection in lending is mentioned by Bliznakov (1931, 293).

Palazov (1932) advises that BNB should reduce the discount rate, which, he believes, it keeps high in an effort, unfortunately ineffectively, to attract foreign capital, and recommends an

³⁹ "It is exactly the morbid processes at the very core of economy that we call economic crisis". (Dolinsky, 1932, 394).

⁴⁰ At that time (with a report of 21 January 1932) came out the in-depth study of the structure of the balance of payments (1924-1930) by Slavcho Zagorov and Asen Chakalov. The calculations, similar to those of Dolinsky, presented by Bliznakov (1931). Similar kind of analyses continue to be published in the future, as well as detailed studies and calculations of external debts after every important event, and the most active in this respect is Nikola Stoyanov who is also the best expert in the field and active participant in international conferences.

individual approach to debtors instead of general debt cancelation). The debts are to the state-owned banks (BNB, Bulgarian Agricultural Bank, and Bulgarian Central Co-operative Bank) of around 5.5 billion gold leva, to private banks (foreign and 134 Bulgarian banks) of around 5.8 billion leva, and to cooperative societies (212 popular banks (populyarni banki) and 1386 agricultural credit co-operative societies) – around 4.1 billion gold leva, or a total of 15.4 billion gold leva (Palazov, 1932, 206). As to the debts of peasant farmers alone, they, according to Tsankov (1932, 11-12), are around 9 billion gold leva, of which around 75-80% are owed to public credit institutions, and 92% of this amount is a short-term debt. According to him again, around 20% of this debt is a debt to make a living. Tsankov sees the situation of citizens as equally hard, or 142 gold leva per capita income. For the procedure of debt remission, see Bobchev (1932). Palazov (1932) doesn't miss to mention the strong demagogy and partisan bias of promises for total debt remission to attract maximum voters and in passing bills in Parliament.

To resolve the agrarian crisis it was also relied to some extent on international cooperation within the frame of the so-called Agrarian bloc (Bulgaria, Estonia, Poland, Romania, Yugoslavia, Hungary and the Czech Republic), where a “monetary normalisation fund” was proposed to be set up to ensure a normal inflow of capital from the European periphery⁴¹. The Agrarian bloc was established in 1930 and had one of its meetings in Sofia in 1931 (see Shishmanov, 1931). The Conference in Stresa in September 1932 became a much discussed and analysed event, see Sakarov (1932), Chakalov (1933), and Stoyanov (1933) who mention Keynes' ideas of one-off agreed inflation or reduction of monetary coverage. Bulgarian economists are hesitant to take sides on the issue of monetary reform, vacillating between the choice to support the British ideas of currency devaluation and intensification of the crisis on the one hand, and the French insistence on the gold standard, on the other.⁴²

The second phase of the crisis, which is to a certain extent transitional for countries like Bulgaria, is the collapse of the US financial market in 1929 and the banks' failures in USA that

⁴¹ Prominent organizational role here played the Romanian economist and than minister Virgil Madgearu (see for more on Madgearu's views, Bobulescu, 2010). See also [Delaisi \(1933\)](#).

⁴² On the positions of individual western countries at the Conference in Stresa and later in London, see Bonnet (1933), [Delesi \(1933\)](#).

followed (Tsankov, 1932). The Bulgarian economists do not specifically elaborate this episode, nevertheless it provides them with a ground to delve into their interpretations of the crises as structural and expand their view of the reasons and outlooks for the crisis as the crisis clearly takes on a systemic and global course.

V

Monetary and banking crisis: the structural model prevails

The third phase of the Great depression period is the banking crisis in Austria and Germany, which leads to a currency crisis of the sterling pound and its depreciation in the summer of 1931, and of the dollar in early 1934. The crises of those two main currencies began to bear directly on Bulgaria and thus became the subject of numerous analyses⁴³.

Generally, at that time countries used independent strategies to adapt to the crisis. Three blocks were formed: first group countries devaluating their currencies (United Kingdom (1931), the USA (1933), and for example Bulgarian neighbour Greece (1932)⁴⁴; second group countries maintaining the gold standard, with France in the lead, and conducting strict deflationary policy to limit wages and prices growth; and, finally, third group countries preserving exchange rate parity and exercising strong exchange control (Germany, Italy, Hungary, Austria). Bulgaria joined the third group, being sceptical of the foreign trade liberalisation measures recommended by the 1927 Geneva Conference⁴⁵. Bulgaria continued to maintain the fixed exchange rate and its convertibility, and after the devaluation of the US dollar in 1933 the lev was fixed to the French franc (BNB, 2004, 419). After the devaluation of the franc in 1936, the Governing Council of the BNB continued to maintain the fixed exchange rate until the end of 1939, arguing that “we are not directly hurt by these devaluations and at the moment there is no need of certain adjustment measures, and our export will follow its own way” (BNB, 2004a, 557-562)⁴⁶.

The devaluation of the main currencies made Bulgarian economists finally begin to treat the crisis as deep fundamental, and most importantly, as having numerous manifestations. The range

⁴³ See for example [Delaisi \(1933\)](#), Robbins (1934).

⁴⁴ In late 1931, 16 countries preserved the gold standard, 12 had currency parity, and another 11 kept gold parity by restrictions on trading foreign exchange (Svrakov, 1941, [1936], 312).

⁴⁵ In 1926, however, there was a partial reduction of restrictions. In spite of much comment on the decrease of trade and exchange restrictions, the Andrey Lyapchev government did not have the political will to act.

⁴⁶ According to Monchev (1939, 55), there were two tendencies: creditors wanted to devalue their own currencies with the purpose to improve their balances of payments via foreign trade while debtors (primarily agricultural countries among which Bulgaria) decided on keeping the purchasing power of their currency in order to reduce their debts (they often introduced protective tariffs).

of analyses increased. The basic range of issues, apart from the explanations of the currency crisis, are narrowed down to monetary issues, exchange rate and trade control, the condition of the banking system and the needs of its regulation; providing stimulus for the national industry through protection for the national economy, and certainly Bulgaria's external debts servicing.

The above topics are not only the result of the serious problems confronting Bulgarian economy, but they are also provoked by the development of western thought and “attacked” with the instruments of western theories becoming modern. These are mostly the new theories of managed or administrated social economy, which places at the core the role of state and government (incarnation of state power) as a mediator and supreme arbitrator between the antagonistic social classes and groups. Under different variants this model is popular in Germany and Italy and is concretely examined in a number of economic papers. It is not accidental that in this period for the purpose of popularisation and winning recognition the Bulgarian economists invite renowned scholars, among whom Werner Sombart (1932) and Mihail Manoilescu (1933). Manoilescu is a Romanian economist, author of an integral theoretical system of protectionism as alternative to classical free trade theory (his book was first published in France in 1929)⁴⁷. During that period a number of Italian scholars visited and had their works translated such as the jurist Giorgio Del Vecchio (visited Sofia in May 1934) and the politicians and jurists Giuseppe Botai and Alfredo Rocco (translation of their book in 1934).⁴⁸ An in-depth review was made of the corporativist organisations in fascist Germany (B.Y., 1935).

The reasons for the crisis and depression are sought in the deep economic and political disequilibria and changes occurring in global economy and speeded after WWI and the peace treaties, something which by the way, most Bulgarian economists actively involved in the country's political life never stopped repeating. One such example is Alexander Tsankov, who considers the global balances and flows of savings, investments and gold changed, and the industry going through deep technological changes with machines becoming of mass use (Tsankov, 1929; 1932). To him:

⁴⁷ See Bobchev (1933a); Manoilescu (1933); Sombart (1932; 1935; 1938); BES Journal (1932; 1933). For more detailed discussion on Mainoiescu see Babulescu (2010) and also Muresan and Muresan (2003).

⁴⁸ See Nenovsky (1999, 245-248); Rocco and Botai (1934).

“The crisis started already before the war and it, perhaps, could have grown to the same scale: so deep, horrendous and huge as it now is; the war however speeded up its progress” (Tsankov 1932: 3).

As regards Bulgaria, Tsankov sees the dependence of the small and peripheral countries on the centre, and in his recollections, he would say:

“Regrettably, small countries and in particular the countries on the Balkans have always been minor pawns, with which the big countries have balanced their accounts” (Tsankov 1998 [1953]: 283).

Later, in his memoirs written in Argentina, Tsankov points out the difficulties in the geostrategic choice of the country, the split in Bulgarian identity:

“Our tragedy is our divided identity [...]. We, Bulgarians, harboured two souls, so to say, being Russophiles and Russophobes at the same time. [...]. In spirit and culture – close relatives, politically and socially – divergent. (Tsankov 1998 [1953]: 114).

Regarding the outlook for the economy and economic policy, Alexander Tsankov is clear:

“One thing, however, must not be forgotten; namely, that from now on the state as a representative of democracy and economic democracy in particular will strengthen more and more its control and its governance in social life as well. This could perhaps be just an earlier phase to yet another reconstruction of the world; however, observing life we can say that state is interfering more and more by way of control and governance in all areas of life, especially in economic and social life (1932, 16); From now on the state will interfere. This is perhaps the new that we see coming. (Tsankov 1932:18).

In the keynote speech of Democratic Alliance (*Democraticheski sgovor*) movement, held on 12 June 1932, Tsankov demonstrates some of his old principles of the historical school by saying that despite the positive he finds with Italian fascism and Hitlerism, we should look for our own specific Bulgarian model of managed state economy. In his view:

“We will do what we can and try, in accordance with the soul of the Bulgarian people and its political, economic and international position, to create our own genuine, home-spun Bulgarian movement...” “Capitalism however will prevail. The question is what form, what new forms it will take in order to provide new stimuli to human progress.”, “[...] to promote reconciliation between workers and capitalists through the mediation of the state.” (Tsankov 1932: 528 - 536).

Monetary regime became the main topic of analysis and controversy, rekindling to some extent the debates from the period before the stabilisation of the lev about the level of lev fixing and the level of money supply coverage (in this period money supply was associated to “monetary circulation”). There is a wide consensus among our economists about the need to retain the old lev parity despite the devaluation of the main currencies and our neighbours’ currencies. Indeed, with time, the ideas of devaluation also sneak, but this happens at a later stage. As an alternative to devaluation and deflation, the Bulgarian economists began to actively analyse the possibilities of exchange control and the future monetary and non-monetary mechanisms within the frame of the German zone.

In analysing the devaluation of the sterling pound and the Deutsche mark, Alexander Tsankov sees them as inevitable consequence of the movement and structure of monetary and capital flows globally, largely attributable to debts and reparations. According to him (Tsankov, 1932, 7), having received its reparations from Germany, France hoards reserves, which through England are once again recycled in Germany in the form of short-term loans from British banks. And as these funds are invested in long-term projects in Germany, when confidence declines the British banks can not claim back their receivables from Germany. This undermines the sterling pound. Although gold is a significant factor of economic development, it is still a "fetish", and its uneven distribution among individual countries is noxious⁴⁹.

⁴⁹ My impression of Tsankov’s attitude to gold is that he is divided and largely unclear about his position. On one hand, he praises gold for its linkage to savings, and on the other – that it will be outlived. To me, his uncertainty is understandable given that such a hesitant attitude to the gold standard is also held by other authoritarian leaders, Mussolini for one.

The fragile chain of monetary payments between countries as cause of the crisis exposed by Tsankov is close to the schema proposed at the same period and later by different western authors (for example [Deleasi](#), 1933, Baudin, 1937 among many others).

The leading Bulgarian economists concur on the benefits and advantages of the gold standard internationally and at home, which continues even after the devaluation of the French franc in 1936 (as I mentioned, Bulgaria is among the last countries to remain in the gold bloc and practically never devaluated⁵⁰). In sync with these positions is also the support our economists give to the French orthodox monetary theories of Charles Rist and Bertrand Nogaro in their debate with the proponents of the “guided currency [*upravliavanata moneta*]”, mainly promoted by British economists (including Hawtrey and Keynes) (see Kalinov, 1932, Mollov, 1935, Stoykov, 1935). Especially clear on this point is for instance Lyubomir Yankov (1936, 1936a) who is against an eventual devaluation of the franc, and if already a fact (according to his calculations a devaluation of some 25-35%) – he regards it as catastrophe. In his view:

“Will a depreciation of the French franc put an end to these concerns? Certainly not. [...]. A balanced policy of saving conducted in a peaceful environment is an absolute must for public credit to recover. Any other orientation would only fatally lead to a “guided currency”, much as illusory the advantages of such a monetary system might be.” (380); “Raymond Poincare’s franc collapsed as a result of disrupted state finances” (494). A devaluation of a national currency always brings with itself relief to debtors and loss to depositors and creditors” (Yankov 1936: 505)⁵¹.

A similar conservative attitude to devaluation is held by another economist, Asen Ivanov, BNB Governor, who published two articles placing foremost importance on the key role of savings in exiting crisis (Ivanov, 1933, 1936). To him:

⁵⁰ Germany and Hungary also never officially devaluated. Despite that Romania also kept the exchange rate parity, in 1936 she devaluated in practice when revaluating the gold reserves adding the 38% premium (Blejan and al., 2009). The questions whether or when the country gave up some of the characteristics of the gold standard are methodologically very difficult to answer. Some authors suppose that when the exchange rate control is introduced, usually in 1931/32, the gold exchange standard is *de facto* abandoned, because the free movement of gold is limited (Wandschneider, 2006, Kugler and Straumann, 2010). As far as practically all countries, true in different degree, resorted to exchange control, the story of leaving the convertibility became complicated.

⁵¹ As early as 1932, in one of his analysis of the crisis Andrey Lyapchev (Lyapchev, 1932) says that it was largely caused by debtors' behaviour and mixing credit with money, which in turn leads to speculation.

“Devaluation may only be likened to an injection made to an ill person to alleviate the pain for a few hours, to soothe him for a while”; “Whoever is pleading today in favour of cheap money as a means of boosting up the economic life in our country, is wrong. Cheap money and devaluation cut both ways, and if they are not properly manipulated, there is the danger of ending in losses rather than achieving good results” (Ivanov 1936: 582-583).

Assen Ivanov not only describes the technical problems of the losses resulting from devaluation (including the role, which in modern terms would be “the theorem of critical elasticities” of foreign trade), but he is also definitely in favour of encouraging savings rather than demand. As we already know, this is the watershed of the disputes held at that time. The same conservative view is held by Asen Cholakov, who however sees the salvation for Bulgaria lying in foreign exchange restrictions and protectionism:

”Although the devaluation of the French franc, the Italian liretta and other currencies do create certain difficulties for debtor countries in relation to their trade development especially for their exports, they are nevertheless in a position to keep their system by means of protection premia on exports and boost the development of their economy”; “The fluctuation in the value of the national currency are always dangerous and create obstacles to the normal functioning of the economy” (Chakalov 1936: 600 -603).

At the same time, there are some shy attempts to look positively on a devaluation, as well as attempts to study and spread the idea of the “guided currency [*upravliavana moneta*]” (in modern terms “discretionary monetary policy under fiat money regime”). In this respect, worthy of note are the young Assen Hristophorov’s allusions in one of his first articles where, after his stay in London, he describes the consequences of the devaluation of the sterling pound and the dollar, saying:

”Because all things considered, it is not the vastness of the gold reserve stock at the central bank, but the internal and external economic equilibrium, which guarantee the stability of the national currency unit. [...] In an eventual devaluation the fear of a fast,

strong and speculative pick up in wholesale prices and a rise in the cost of living in general is ungrounded. [...] a possible devaluation of the coins of the gold bloc would have a faster and more efficient impact on domestic prices than in the case of the English devaluation” (Hristophorov 1935: 261).

The subtitle of the article (“Deflation or Devaluation”) indicates that it is directly influenced by the numerous publications on this subject, including by Keynes⁵². It might be interesting to note that two years later, after the devaluation of the franc, in one of his articles Hristophorov (1937, 234) clearly mentions the pick up in prices in France (22%, which is more than in other countries) with devaluation already a fact. There again, and in a next article about the state of global conjuncture, Hristophorov explicitly underlines the fast development of virtually all countries following devaluations, by implicitly stating his view that gold is "chains" to economic development (in the vain of Keynes’s and later Eichengreen’s interpretations).

Zhelyo Burilkov, a BNB deputy governor, makes an exhaustive and particularly rich analysis of the new theories and techniques of the Central Bank, where though implicitly, the discretionary monetary policy is given a support (Burilkov, 1935). It is interesting that Burilkov sides with the economists who believe that monetary policy is a science and theory, and not only art, practice and experience. The ideas of Hawtrey, Keynes, Wiksell, Cassel and Fischer are presented. Keynes is not clearly distinguished from the rest, while the lender-of-last-resort function is not explicitly mentioned (the article speaks about the “bank of banks”) although some of Bagehot’s views are presented. It is interesting that Burilkov sides with the economists who believe that monetary policy is a science and a theory, and not only art, not only practice.

If we should summarise the arguments, which Bulgarian scholars uphold against devaluation and deflation, and in support of exchange control, these could be brought to the following:

First, as already mentioned, Bulgaria was a debtor country which considered debt service a key priority. In fact, Bulgaria was an extremely diligent payer who pursued to preserve its reputation through debt service. Due to its political isolation after WWI, however, its endeavours as a good

⁵² For more information see Nenovsky (2006); Kalecki (1938), Rist (1933), Baudin (1937)..

payer were not recognised and it had to shoulder its liabilities with almost no relief (Ivanov, 2001, 2004)⁵³. In his speech marking the BNB's 50th anniversary, then-prime minister Andrey Lyapchev said, "one would be hard put to find quite such a young nation in quite such exacerbated circumstances as ours these past fifty years, yet one which can boast that it has ever occupied the position of an exemplary payer to its foreign creditors" (BNB, 2001,135). With respect to structure, Bulgaria's debt was denominated in gold backed leva and was mostly owed to non-devaluing countries⁵⁴. According to the Royal Institute of International Affairs, "in Bulgaria it is almost certain that the transfer question has predominated" (1936, 98) and the purpose of maintaining the currency on a gold basis "has presumably been to avoid an increase in the costs of the foreign debt service" (1936, 129). Even before reparation payments began in October 1923, foreign debt service reached the amount of 112 million gold francs in 1918 to 1922: 16.3 per cent of budget expenditure. Reparations under the Treaty of Neuilly were added to this, coming to 2250 million gold francs at 5 per cent annual interest over 37 years, plus occupation expenses. This represented a quarter of the national wealth. Sterling devaluation offered some relief to Bulgaria since its debt was predominantly in pounds. Debt service now accounted for 11 per cent of budget expenditure; there was no great BNB asset loss since a comparably small amount of assets was denominated in sterling (the Royal Institute of International Affairs, 1936). Summarising the opinions of many economists at the time, a hypothetical devaluation would certainly increase national debt burden, while any possible advantages would be marginal (Sarailiev, 1937, 27).

Second, the balance of payments constraints were particularly tight, and not only as regards foreign debt service. The prices of agricultural products, which accounted for the major part of Bulgarian exports⁵⁵, fell sharply on international markets and aggravated terms of trade. The September 1932 Stresa Conference which focused on possible assistance to Southern European countries (a major part of the so-called 'agrarian bloc') noted that the price drop reached 70 per cent (Bonnet, 1933, 21). A fund concentrating revenue from the sale of agricultural products to

⁵³ Bulgaria continued to pay reparations in 1933.

⁵⁴ French claims on Bulgaria were about 26 per cent of overall Bulgarian debt. Next in the creditors' list were Italy at 25 per cent, Greece at 12.7 per cent and Romania at 10.55 per cent.

⁵⁵ Romania faces similar problems, see Madgearu (1939), Muresan and Muresan (2003) and Bobulescu (2010). For an overview of the economic situation for the Balkans in the Thirties, see Royal Institute of International Affairs (1936).

developed countries was proposed to be used as partial debt service (the United Kingdom vetoed it).

Third, systematic exchange control could be interpreted as a defence against restrictions introduced by Bulgaria's trading partners. The farming price drop was combined with a number of restrictions on the import of agrarian products to Germany and France with a view to protecting indigenous farmers through economic and political means (Raupach, 1969). Turkey, an important Bulgarian trading neighbour, also introduced some limitations on Bulgarian imports. In April 1932 the drachma joined the devaluers' club and Bulgaria lost its competitive and long-standing positions on the Greek market.

The fourth and direct cause of exchange control was the intensification of capital outflow from Bulgaria at the end of 1931. This followed the collapse of the fragile monetary and financial stabilisation of late 1920s and the sterling devaluation. In addition to this global imbalance, Boshulkov (1927) provides a list of long-term domestic factors like the purge and confiscation of capital claimed to be illegally accumulated during the Wars, and political instability, which certainly contributed to decrease Bulgarian capital accumulation and foreign reserves.

Also of interest in this period are the discussions of the banking dimension of the crisis. A known fact is that over the period 1931-1935 the number of banks drops from 131 to 98 due to failures and consolidation (Kemilev, 1935, Milev, 1935). According to the recent study of Kiril Kossev (2008), the banking crisis in Bulgaria is one of the severest: only in the period 1929-1932 bank deposits decrease by 50%. Laying the foundations of banking supervision Bankers Board (*Bankerski savet*) and a range of accounting rules are a manifestation of recognising the need for a regulated financial system and the weaknesses of the free market⁵⁶. All these measures could be interpreted as manifestations of a general trend toward the greater state interference into economy and more active monetary policy.

⁵⁶ See also Nenovsky et al. (2008).

VI

German economic zone: the structural model in action

As we already indicated, the last phase of the Great Depression is the disintegration of world economy into several blocs with Bulgaria making her choice in favour of the Germany administrated area of influence. The exchange control, and later on the clearing treaties became a key monetary instrument in fighting deflation and crisis. A detailed account of the exchange control and clearings in historical perspective is given in Nenovsky and Dimitrova (2008). Here I will briefly outline the major events⁵⁷.

As was mentioned in the first chapter the Bulgarian post war monetary stabilisation was accompanied since the beginning by different exchange control measures. Indeed, the systematic exchange control came into force in Bulgaria⁵⁸ with the 15 October 1931 Foreign Exchange Trading Act and BNB Ordinance No. 1 of 20 October. These instruments gave the BNB a strict foreign exchange monopoly, defining in great detail how foreign exchange was to be submitted to the BNB and how it could be dispensed for imports. Lists of luxuries whose import was limited began to be compiled and amended. To keep foreign capital in Bulgaria and halt depletion of foreign reserves, the BNB raised interest rates, in 1933 imposing further import restrictions. As other countries (including major trade partners Greece and Turkey) imposed exchange and trade constraints, the only reasonable way of letting foreign trade 'go on' was through bilateral clearing and even officially conducted barter (Ellis, 1947)⁵⁹. In a sense, exchange control was *unilateral*, while clearing – an instrument to overcome the disadvantages of exchange control – was *bilateral* with some prospects of becoming *multilateral*⁶⁰. Thus clearing followed exchange control as the latter inevitably hampered international finance and trade. Bulgaria signed clearing agreements with Austria (October 1931), Switzerland (April

⁵⁷ See also Nenovsky, Pavanelli and Dimitrova (2008) for comparative analysis of the exchange control in Italy and Bulgaria.

⁵⁸ In June 1931 the *Naroden Blok* government came into office after the *Demokratichen Sgovor*.

⁵⁹ A similar 'going on' argument is stressed by Jacque Rueff (1966, 79).

⁶⁰ This Nazi wartime project (1940-'42) was never put systematically into practice. In the case of Bulgaria trilateral agreements were used more after 1935 (see Hristophorov, 1939, p. 36).

1932), Germany (June 1932), and Italy (1933). At first clearing covered a small share of foreign trade but soon became widespread and according to Michaely (1962) and Friedman (1976) occupied two thirds of trade turnover in 1930s. Benham (1939) and Neal (1979) argue that Bulgaria, together with Hungary, was the country which used bilateral forms of international trade to their utmost, while being the sole country managing a fixed clearing exchange rate for the entire period of restrictions. In Michaely's calculations (Michaely, 1962, 691) Bulgaria ranked last in a sample of 60 countries, with bilateralism representing some 87 per cent of its foreign trade in 1938 compared with an average of 70 per cent. It is interesting to note that in successive rankings for 1948, 1954, and 1958, Bulgaria kept the last position, this time in the context of the Eastern soviet bloc⁶¹.

Many authors like Friedman (1976, 117) shared the opinion that Germany was the logical clearing and bilateral partner for Central and Southern European countries (table 4) as a natural reaction against British and French tariff and non-tariff restrictions under which trade with Bulgaria was bound with foreign debt service⁶². Moreover, Britain and France did not extend credit lines as did Germany and did not have similar markets and domestic demand. It was natural for the contraction of trade with France and Britain to be compensated partially by expanding trade with Germany and Austria. Under clearing importers pay in their national currencies, depositing money with their central banks, while exporters get paid in their national currencies by their central banks. Settlement is at an exchange rate agreed in advance. At first glance, the country with a stronger or appreciating currency loses out by accumulating positive clearing balances which cannot be settled and thus attempts to increase trade outside clearing agreements. The difficulties of clearing and the need for more flexibility prompted the appearance of a new institutional form of international trade: bilateral private clearing with exchange rate premia; in 1933 compensation offices were established at chambers of trade. Bilateral private compensations were paid directly to importers in their national currencies.

⁶¹ Hristophorov (1939) provides his own calculations of this indicator.

⁶² See for example the Royal Institute of International Affairs (1936, 131). For example Heinrich Hunke, chairman of the Council for German Economic Encouragement underlined the differences between French/British and German Southern European policy in a 1942 Sofia speech which stated that trading with Germany had saved Southern Europe and the Balkans (Hunke, 1942, 16-17).

Table 4:
Bulgarian Clearing and Non-Clearing trade

| Years | Export (shares, %) | | | | Import (shares, %) | | | |
|-------|--------------------------------|-------------------------------|---------------------------------|--|--------------------------------|-------------------------------|---------------------------------|--|
| | Clearing in total export | Germany in total export | Germany in total clearing | Non- clearing in total export | Clearing in total import | Germany in total import | Germany in total clearing | Non- clearing in total import |
| 1934 | 78.97 | 48.05 | 60.84 | 21.03 | 78.3 | 48.87 | 62.43 | 21.7 |
| 1935 | 77.25 | 49.48 | 68.09 | 22.75 | 80.19 | 59.82 | 75.11 | 19.81 |
| 1936 | 69.44 | 50.53 | 72.78 | 30.56 | 81.7 | 66.67 | 81.58 | 18.3 |
| 1937 | 65.52 | 47.11 | 71.91 | 34.48 | 79.9 | 58.22 | 72.82 | 20.1 |
| 1938 | 77.24 | 58.86 | 76.21 | 22.76 | 74.02 | 51.43 | 70.22 | 25.98 |
| 1938a | 71.68 | 51.49 | 71.78 | 21.4 | 74.74 | 54.1 | 72.38 | 25.32 |
| 1939a | 72.81 | 59.43 | 81.63 | 27.19 | 80.89 | 61.04 | 75.46 | 19.05 |

Note: a – export/import data refer to the first five/four months of the year.

Source: Hristophorov, A. (1939) "The Course of the Trade Cycle in Bulgaria, 1934-1939", p. 46, p.48.

Studying the clearing mechanism in more technical detail, however, reveals two forms of payment (see chart 6). The first implies that the foreign bank (the BNB in this case, providing there was a clearing surplus for Bulgaria) had Reichsmarks (sperrmarks) at its disposal and paid to the importer in leva (*i. e.*, it bought Reichsmarks, called 'blocked marks'), thus increasing Bulgarian money supply and income and hence driving up import demand. In this case the BNB supported the Reichsmark by not allowing it to depreciate. The clearing foreign exchange obtained from clearing here was on the asset side of BNB books. This was 'the principle of immediate payment.'

The second form, described as 'the principle of delayed payment' implied that Bulgarian exporters waited for the sale of German goods and then bought Reichsmarks with their blocked leva⁶³. In this case the BNB refused to buy blocked marks until they had been requested by importers of German goods. Until such request the Reichsmark depreciated on the Bulgarian market. In this case the holding of blocked Reichsmarks did not create money, being off-balance

⁶³ Sometimes the two methods are termed the financing and waiting principles.

sheet. According to the literature dedicated to the subject, the principle of immediate payment was advantageous to depressed Southern Europe because it was widely believed that expanding money supply would cut unemployment rather than lead to sharp price rises. According to Neal (Neal, 1979, 393) the bigger the clearing surplus and the higher the mark rate under the principle of immediate payment, the stronger the expansionary effect for Central and South European central banks. Thus Hungary, which adhered to the principle of immediate payment, experienced economic growth and an improving balance of trade. Romania, in contrast, exercised the principle of delayed payment which impacted its economic development (Neal, 1979). Bulgaria, as Hungary, applied the principle of immediate payment in clearing, and the effects on money supply expansion can be studied in balance sheet data (table 5). The increasing value of Miscellaneous Foreign Currencies on the asset side of BNB books closely followed receipts of non-gold bloc foreign exchange from clearing and other agreements (BNB, 2001). The growth of this item was much faster after 1938 when huge positive balances in German clearing were recorded.

Table 5:

BNB balance sheets 1928-1938 (leva millions)

| Assets | 1928 | 1930 | 1932 | 1934 | 1936 | 1938 | 1940 |
|---|--------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Gold and silver holdings ¹ | 1598 | 1879 | 1874 | 1900 | 2049 | 2586 | 2301 |
| Receivables in gold foreign currencies (article 10 of BNB Law) | 2736 | 481 | 92 | 26 | 0 | 0 | 4 |
| Other foreign currencies | 534 | 152 | 116 | 174 | 772 | 1279 | 2336 |
| Domestic credit ² | 5362 | 4267 | 3913 | 3724 | 4336 | 4829 | 8021 |
| Treasury bonds | 0 | 0 | 130 | 310 | 0 | 0 | 0 |
| Other items ³ | 164 | 375 | 247 | 252 | 215 | 146 | 557 |
| Total assets | 10394 | 7154 | 6373 | 6386 | 7372 | 8839 | 13219 |
| Liabilities | | | | | | | |
| Capital | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| Reserve funds | 1149 | 1169 | 1191 | 1240 | 1241 | 1188 | 1207 |
| Banknotes in circulation | 4173 | 3296 | 2635 | 2449 | 2571 | 2800 | 6518 |
| Deposits ⁴ | 3862 | 1817 | 1813 | 1872 | 2382 | 3707 | 3785 |
| Other liabilities ⁵ | 637 | 287 | 203 | 277 | 546 | 443 | 937 |
| Profit | 71 | 83 | 32 | 48 | 133 | 202 | 272 |
| Total liabilities | 10393 | 7154 | 6373 | 6386 | 7372 | 8839 | 13219 |

Note: 1. Gold and silver holdings including coins. 2. Domestic credit comprises receivables from government, banks, commercial paper, and effects. 3. Property and other assets. 4. Demand, time and other deposits by government and banks. 5. Liabilities in gold and other foreign currencies. Source: Original balance sheet data from BNB (1999) 120 Years Bulgarian National Bank, p. 130.

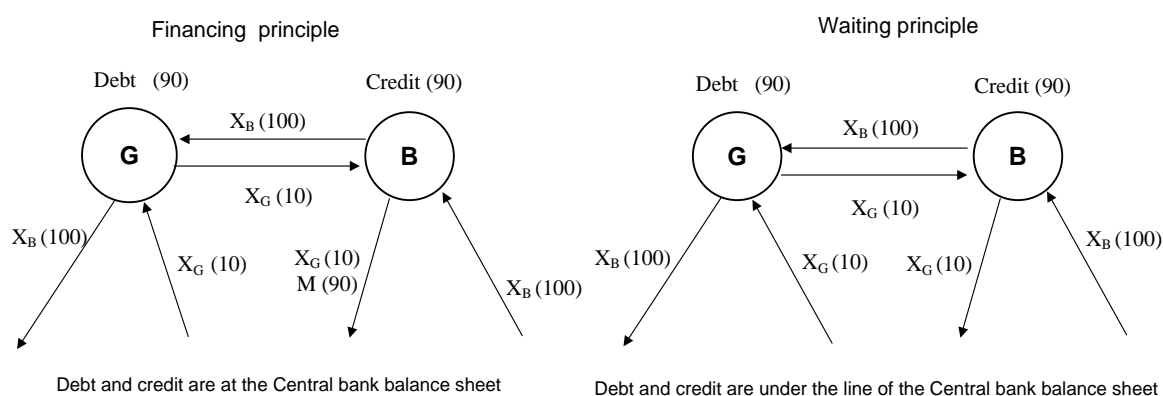
More technically (chart 6) if G stands for the German central bank, B – for the BNB, X_B – Bulgarian export to Germany, X_G – German export to Bulgaria/or Bulgarian import from Germany, and M – is an additional monetary flow created by the Bulgarian central bank due to the clearing surplus (in our case 90). In the case of immediate payment (financing principle) applied by Bulgaria (the same story concerns Hungary, and later Italy) as a result of the positive clearing surplus [X_B (100) > X_G (10)], domestic money supply automatically expand (the clearing surplus is multiplied by the clearing exchange rate (supposed to be 1, in this case for example $1RM = 1lev$ ⁶⁴). In this case (also named financing principle) the central bank buys the receivables from its exporters at the fixed in the clearing exchange rate. In the second case of postponed payments (as we mentioned above Romania employs this method of payment)⁶⁵ the central bank waits for the counterparty to settle the clearing balance, hence the positive surplus is not immediately monetized and there is no monetary expansion at home. In the first case the positive surplus appeared as debt/credit respectively at the balance sheet of the German central bank and Bulgarian central bank. In the second case there is not additional monetary creation and the debt/credit position regarding the clearing are not at the balance sheet but under the line (off-balance). In this waiting principle the clearing surplus (90) has depreciating effect on the mark (as mentioned by Larry Neal)⁶⁶.

⁶⁴ In the real Bulgarian case the rate was $1RM=33$ levs).

⁶⁵ See for instance Neal (1979).

⁶⁶ In this case we could suppose the clearing rate to move from $1RM=1lev$, to around $1RM=0.1levs$, *ceteris paribus*.

Chart 6 Two methods of clearing system



In late 1939 exchange control was transformed from an instrument of stabilisation into a lever for marshalling war resources. The military logic of exchange control was apparent much earlier in Germany and Italy which in late 1930s subordinated foreign trade to war needs. The final point in the relationships with Bulgaria for instance (and before that with Romania) was the 1940 clearing agreement (the BNB did not participate in negotiations because of its specific position) which was extremely slanted in favour of Germany (the Reichsmark rate was unfavourable, for one thing) allowing it to transfer resources from Bulgaria. Since 1934 Bulgaria had scored positive clearing balances which were not covered either by import of machines and goods, nor by capital inflow from Germany. In principle Bulgaria exported agricultural products and imported commodities and industrial materials (table 6).

Table 6:

Share of good categories in total import (%)

| Goods' categories | 1921 | 1923 | 1927 | 1929 | 1931 | 1933 | 1935 | 1936 |
|---|------|------|------|------|------|------|------|------|
| Commodities and raw materials (incl. fuels) | 38.5 | 50.2 | 54.3 | 56.4 | 58.9 | 70.2 | 63.4 | 63.8 |
| Final manufactured goods | 59.6 | 48.1 | 43.3 | 41.1 | 39.2 | 28 | 34.9 | 34.4 |
| Food and drinks | 1.9 | 1.7 | 2.4 | 2.5 | 1.9 | 1.8 | 1.7 | 1.8 |

Source: Toshev (1943, p.90).

In Bulgaria, as elsewhere, exchange control performed another function alongside monetary and financial stabilisation and balance of payments restrictions. Though considered only implicitly, this function was growing in importance. It entailed using exchange control to stimulate or restrict sectors and branches of the economy; according to Paul Einzig exchange control became a “weapon of commercial policy” (Einzig, 1934). Moreover, the League of Nations’ report on exchange control noted:

“... the control is now applied as an active instrument of commercial policy and for the further purpose of placing a barrier between world and domestic prices, so that monetary and general economic policies could be chosen and executed without regard to their effects on the balance of payments” (League of Nations 1938: 22).

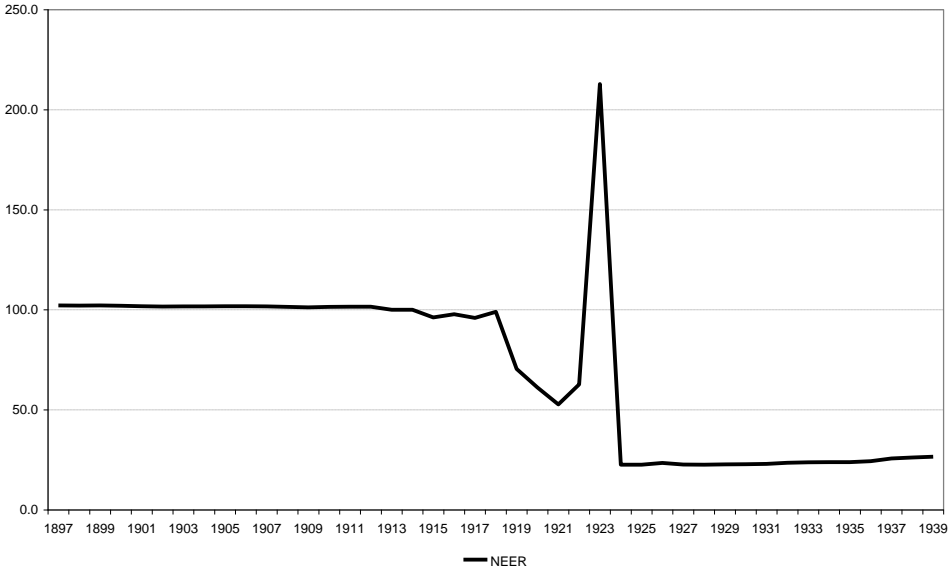
Though the initial reason for this kind of industrial policy was to limit expensive imports (thus the BNB argued in favour of importing commodities and materials rather than machines because the former were cheaper; BNB, 2004, 91), the necessity of protecting indigenous industry and cutting unemployment in time moved to the fore. The 1928 National Industrial Promotion Act provided various encouragements and duty waivers before losing effect partly due to exchange control in 1931. A new 1936 Act made customs regulations particularly important for protecting industry (for details see Toshev, 1943).

In other words, exchange control and foreign trade restrictions in general (quotas and tariffs) obtained predominantly domestic functions. Economists often argued that “encouraged industry” (*nasarchena industria*) and overprotection hit consumers and general entrepreneurship since protecting domestic production hampered competition and led to the rise of monopolistic domestic industries. In Toshev’s opinion

“the importance of international trade agreements was diminishing after 1932 with respect to domestic industry since another very effective instrument compensated for trade concessions, and namely BNB exchange rate policy” (Toshev 1943: 85).

As a result of exchange control maintained throughout 1930s and intensified trade with Germany the lev rate appreciated gradually during 1930s reaching only 18.5% in 1937 in nominal effective terms with respect to the base year 1927 (see chart 4 and 5)⁶⁷.

Chart 4
Bulgaria's nominal exchange rate (1897-1938, 1913/1914=100)



Source: Ivanov, Dimitrova and Simeonova-Ganeva (), 4-5. The movement above the 100 line represents the depreciation, and below the line – appreciation.

⁶⁷ Interestingly, arbitration calculations (across the Romanian leu) of Hristophorov generated some 20 per cent appreciation of the Reichsmark against the Bulgarian lev after 1934; *i. e.* a mark was worth 25 leva while the official exchange rate was 33 leva (Hristophorov, 1939, 20).

Chart 5

Bulgaria's real and nominal exchange rates (1927-1939, 1927=100).



Source: Ivanov, Dimitrova and Simeonova-Ganeva (), 9; The movement above the 100 line represents the depreciation, and below the line – appreciation.

Choosing exchange control to resolve the exchange rate issue is an important incentive for developing the theories of autarchy, protectionism, industrial policy and subsequently for asserting an overall conceptual framework of managed economy. Protectionism, autarchy, cutting back on international trade and the challenges they pose to free trade theory were analysed on numerous occasions by Bulgarian economists (Kalinov, 1932a; Nikolov, 1932, Peev, 1932, Ekimov, 1932; later on Dochev, 1937, and Svrakov, 1936, 1936a). For example Ivan Ekimov in his turn bases his assumptions on Otmar Spann's ideas of self-sufficient economy, which he believes is a "universalistic view of autarchy". Ekimov upholds the "individualistic view of autarchy" (Ekimov, 1932). See also the discussion in the BES Journal (1932), which analyses Bulgaria's economic dependence upon the outside world (the commentaries by Iv. Gubensky, A. Lyapchev, and K. Bobchev). As a rule, most authors are oscillating in their views as is well synthesized by Hristo Peev: "There is absolutely no way I should be regarded as a fritreder liberal. However, I can not agree with protectionism going to extremes – the autarchy." (Peev, 1932, 637).

Apart from Georgi Svrafov, another author who, in my view, stands out among the rest is Konstantin Bobchev, who studies a wide range of theoretical issues and economic policy issues relating to various aspects of violation of free trade principles and the increasing role of the state domestically and internationally. He presents a number of new analyses of the international trade theories (Bobchev, 1937), which is why (out of courtesy or otherwise) Slavcho Zagorov in his review of the new ideas in economics (Zagorov, 1937) places him together with Joan Robinson. Thus, Bobchev becomes the only Bulgarian economist with “new ideas”. In fact, Bobchev writes an article about the development of protectionism in Great Britain, where he makes an extremely profound historical and theoretical analysis of the occurring changes (Bobchev, 1935, the article was written in January 1935 in London).

The same year he published an article on protectionism in economic theory (1935a), while two years earlier he presented but also criticised Mihail Manoilescu’s ideas about the role of protectionism in agrarian countries (Bobchev, 1933). Manoilescu is an original author who constructs a theoretical system as alternative to both free international trade and the law of comparative costs, as well as to closed economy in the spirit of List (see for details Babulescu, 2003). Manoilescu does not accept List’s temporary protectionism for infant industry, he states that the protection of national industry in less developed and agricultural countries need to be long-term policy. In modern terms, the Romanian author denies the conception that free trade is a first order optimum and protectionism is a second order optimum; instead, he asserts that protectionism is a first order optimum. In fact, according to Manoilescu the benefits of industrialisation are relatively bigger for agrarian economies than for developed countries, because of productivity gap; they increase their welfare to a relatively greater extent, and as a consequence of this assertion it becomes crucial that they develop an industry of their own and their own capital under the guidance of state. Manoilescu proposes a whole system of indicators for measuring his theories, which he applies in relation to USA, Holland, Bulgaria and Romania (this is, by the way, an occasion to mention that these are countries with the best developed statistics of that time).

Clearly enough, Manoilescu’s ideas, which hold much in common with the models of “catching-up development” of agrarian Balkan countries, constructed much later by Alexander Gerschenkron, are in principle shared by Konstantin Bobchev. The active industrial policy is in

Bobchev's focus of study as well (1936, 1937a). As to Stoyanov, in his article (of 1934) he states the basic reasons for the interference of the state in economy, the most important being the need for melting the differences in the economic development across countries, i.e. the catching-up development⁶⁸. The active industrial policy of the state is an object of numerous publications (see for instance Savov (1935) and Peev (1933)).

All these are studies of different aspects of the big issue of planned and *directed economy*, which is actively present in the theoretical and practical discussions in early 1930s, these studies were inspired by both the practices in most European countries, in particular Italy and Germany,⁶⁹ and the western theories. I will mention only some of the more theoretical publications. In 1933, in his article: "The idea of planned economy and the objectives of today's economic policy" Konstantin Bobchev defines planned economy as an:

"economic system, whereby the mutual adjustment of production and consumption is not represented by the different discordant wills, representing the various production and/or consumption entities, but is instead run in accordance with an overall plan, i.e. a common will standing above the wills of the individual economic units" (Bobchev 1933: 198).

The author absolutely denies the type of planned economy implemented in the Soviet Union and believes that Lenin's electrification plan and the five-year plans are "a discredit to the idea of planned economy" (208-209). Bobchev rationalises along different analytical lines: "unplanned (automatic) – versus planned economy" and "free versus regulated economy", which do not coincide with the "individualistic (private capitalist) versus collectivistic economy". Although Bobchev mentions Mises' fundamental critique of the possibilities to plan at the supra-individual level, he nevertheless disagrees with him by saying that even if this is so, the policy of state is a "lamentable necessity", something which we couldn't possibly escape (212).

⁶⁸ See also Nedelchev "The state (government) as a regulator", written in 1930, in: Nedelchev (1941, 36).

⁶⁹ But not only these: see for example the organisation of the economy in Turkey, Sechanov (1937). See the synoptical book on the new economic order in Germany by Samhaber (1942).

Besides, the automatic market mechanisms after the war take longer to recover (213)⁷⁰. In that period Bobchev still views planned economy as a transitional measure:

”Planned economy as a lasting economic system is neither possible nor is it desirable. It is not possible because of the way we adopted it – as a transitional measure,” “That should be the “new capitalism”. It will be a return to the old one. It will keep the basic features of the old capitalism – private property, personal initiative and responsibility, however in a corrected form.” (Bobchev 1933: 215-216).

In the same year, Mira Kinkel⁷¹ holds a lecture, where she totally dismisses the possibilities for planning, which she believes would “in the first place hinder the personal creative initiative” “it would in the first place hinder the personal creative initiative, and secondly, a slowdown in all economic activities will occur” (Kinkel, 1933, 417). While denying planning, Mira Kinkel shares her theoretical views (unclear to me) on the “discipline” model and goes further to expound some of Sombart’s ideas as well as some fascist ones.

An interesting view is held by Dr Mircho Mladenov (this appears to be the pseudonym of the economic historian Ivan Kinkel), who criticises Sombart’s social model presented in his book “German socialism” (1934) (Mladenov, 1935). In Mladenov’s view Sombart’s book does not offer anything new or specific despite Sombart’s ambition of creating the scientific foundations of socialism and planned economy as an alternative to Marxism and capitalism while taking into account the German spirit. According to Mladenov, Sombart, regardless of his efforts, fails to reflect the deep changes not only in the German society, but globally too. Sombart is criticised for “the lack of revolutionary spirit”. The article however leaves it unclear whether Mladenov (Kinkel) himself sees this revolutionary spirit in a direction to a fascist economic model or vaguely shares some of his ideas of a future social revolution along the lines of Marxism. Or perhaps this is where the pseudonym Mircho Mladenov comes in handy?!

⁷⁰ Bobchev has a thorough knowledge of the German, French and Belgian literature on planned and directed economy (W. Sombart, E. Lederer, C. Landauer, A. Fleissig, F. Delaisi, B. de Jouvenel, Charles Bodin, Henri de Man).

⁷¹ For me is not still clear who is hiding beside this pseudonym.

Subsequently, becoming fully cognizant of the existence of political and conceptual problems in the directed and managed economy (such as mixing with the practice in the USSR), and seeing that these are not transitional processes, most authors expand their analyses by constructing different types of planned economy. In one of his major article “Planned economy” (1935), Stoyan Bochev, having discussed the reasons that lead to crises and “economic disorder”⁷², sets forth his conception of five forms or phases of planned economy, namely: surveilled economy, concentrated economy, co-operative economy, directed economy, and planned economy. The last phase, i.e. planned economy, which is typical of Soviet Russia, is unacceptable and hard to achieve as it destroys the price mechanism. Bochev believes that the best form of planned economy would be resolved by life itself, rather than by means of armchair reasoning, or by some “noisy political cabinet”. The same direction of differentiating the types of new social trends, including as pure structural interpretations of the Great Depression, is followed by Ivan Kinkel in his fundamental study (1939), where he makes a clear distinction between the socialist school in its Marxist variant and the social reformist school (including liberal social-reformism, religious social reformism, and, finally, social reformism based on the authority of the state), as well as social anarchism.

On the whole, the discussion of the individual components of planned economy continues unceasingly and mainly focusing on its practical aspects and policies, as judging by the numerous speeches of the Bulgarian statesmen of that time such as, for example, Professor Alexander Tsankov.

As I already mentioned, in a very late 1930s, especially towards the end of WWII, a large part of the Bulgarian economists adopted Keynes’ theories as a basic model of the essence of the new phase of capitalism (Svrakov is one) seeing it as a milder or politically more correct variant. As a point of fact, we must say, and this is not my discovery, that the philosophy of the German totalitarian planned economy and that of Keynesian discretionary state policy are very much the same; besides Keynes never made a secret of the fact that he drew his inspiration from Schacht’s economic policy of militarization of the economy and the use of alternative monetary and non-

⁷² In his view, the reasons (“*although some economists mention 235 reasons*”) could be narrowed down to three: political division, technical progress and market constraints.

monetary mechanisms for fighting unemployment and stimulating industry, and a great number of his speeches against the free market were read or written in Germany.

Within the frame of evolution to planned economy it would perhaps be interesting to note the weak evolution in this direction by a typical representative of group A (of classical economists and the old historical school) such as Georgi Danailov. In the last edition of his book (finished in 1933) he dedicates a whole chapter entitled “On the economic crisis” (636-662), where he presents in a synthesised form not only the history of crises in the past, but also the reasons and explanations for the Great Depression. Essentially, Danailov represents the positions of the bulk of the economists of his generation at home and abroad. After outlining the theories of crises, here he prefers the theory of Tugan-Baranovsky

“... the workers are not owners of the means of production, because that, which is organised, is the individual enterprise, while the consumption of the whole society remains unorganised, and lastly, as we see it, because the core of today’s economic activity is a never-ending pursuit of profit” 646⁷³

and partly that of Albert Aftalion (cyclical variation of prices, not only their fall, and disproportions across goods of different order along the lines of the Austrian school), and Sombart (disproportions between organic and inorganic industries). Danailov comments the Great Depression saying that it “has not been scientifically clarified to an extent allowing to be objectively expounded in a tractate”. According to Danailov:

“It is evident in the first place that these factors are many, and their power or impact are not equal; and on the other hand – each acts on its own, yet they all lead to a common outcome; therefore it is hard to guess to which of these, and to what extent, the ensuing crisis should be attributed. And often authors and practitioners, more absorbed in a factor from their immediate environment, focus their attention on this factor and seek to explain the whole crisis with it.” (Danailov 660)

⁷³ Put forward and understood along these lines, Tugan’s theory is very much akin to Marx’s theory; however there is a different, Austrian, reading (Arthur Spiethoff, Friedrich Hayek) of this theory.

Within the frame of alternative explanations, Professor Danailov gives the following set of reasons: (i) exhausted economy conditioned by the fact that in a war economy consumption rises strongly⁷⁴, and destroyed capital (savings); (ii) financial exhaustion; new national economies created after the Wars; (iii) new spheres of production, changes in communications and transport; (iv) new social institutions as an 8-hour working day, the autarchy; (v) reparations and adverse distribution of gold; (vi) the refugees problems; penetration of capitalism in the colonies; (vii) invasion of capitalism in agriculture, etc. Recognising that the crisis is structural

“The economic crisis, which mankind has been undergoing since the Wars is like no other crisis seen before. It is none like any of the sections in the chain of regular crises of capitalism, nor does it point clearly to a disproportion of goods today [...]”, (Danailov: 661).

Danailov observes the spreading ideas of planned economy (and those by Sombart, 657-658) showing no enthusiasm for its future. Georgi Danailov continues to adhere to the principles of the classical school.

One form of economic organisation that would help to exit the crisis, which the Bulgarian economists often examine and is always present in their publications, is *cooperation*: whether in agriculture, light industry, or in finances and banking. Historically, cooperation has struck deep roots in Bulgaria (stretching far back to the end of the Turkish yoke period in the form of mutual savings banks, etc.); besides, it is a universal form, which easily fits into different ideological

⁷⁴ It would be well to mention here Asen Hristophorov’s fundamental study (1943) on war economy from the perspectives of the Austrian school and the value-neutral approach of political economy along the lines of the British tradition. This study analyses systematically the effects of disproportionately growing consumption and of certain segments of the production process in time of war. Hristophorov’s book contains many interesting ideas, which are however outside the scope of this paper, to note just the idea of lengthening or shortening the production process within groups of militarised economies. In the case of agrarian and peripheral Bulgaria, the lengthy investment process in Germany leads to a shortened investment process in neutral Bulgaria, which has to specialise in and develop the food production and agricultural sectors (to support the armies with food and clothing). This entails a range of cumulative and well familiar from the Austrian School and Hawtrey process, leading to the interference of the state in the formation of prices, etc. Not at this level of originality, although genuinely erudite, is Hristophorov’s theoretical study of the role of central banks and the economic cycle (1946), where he in general follows the logic of Gottfried Haberler (“From Boom to Bust”, 1937, 1941) as regards the theories of the economic cycle, and of Rolph Hawtrey (“The Art of Central Banking”, 1932) in relation to central bank functions. Unlike the book on war economy, which analyses deep structural changes that took place in the capitalist countries between the Wars, notably on the eve of WWII, the second study views the crises as part of the economic cycle, i.e. as primarily structural.

schemes. It could be regarded as a form of socialism, a transition to the new society, or as a manifestation of the Bulgarian and national specifics (from the perspective of the historical school or the German directed economy). This was subject-matter of numerous books and articles, a number of foreign economists – specialists in the co-operative movement – were translated (Charles Gide, Mihail Tugan-Baranovsky and others) and several magazines were published⁷⁵.

⁷⁵ Cooperation as solution to the crisis was actively promoted at the Balkans region and south Europe, for the case of Romania by Virgil Madgearu, the theoretical basis being this of the Russian economist Chayanov (see Babulescu, 2010).

VIII

Bulgarian Marxists

One of the most active group of Bulgarian economist among the five mentioned, the Marxist one (*E*) was extremely active in this period, assigning one of the main traits of Bulgarian theoretical interpretations of the Great Depression. This group merits some more elaboration. Let us briefly examine the *Marxist structural reading* of depression. This group displays some interesting and curious features, which account for much of the specifics of the Bulgarian interpretation of depression from that period.

This group has the advantage over all other groups to claim a structural change of capitalism already before the Depression, which allows it to “scoff” at the evolution of the other economists, as well as to find evidence in support of its projections. To Bulgarian Marxists, the crisis witnessed by them is a crisis of the capitalist system. Thus, according to Sava Ganovsky (Trudin) the bourgeois economists

“can not understand and scientifically arrive to the fact that the crisis stems from the very essence of capitalism, and that it is inherent in the basic contradiction between the social character of production and the private form of acquisition” (Trudin 1932/1933: 108).

And again his view:

“The Bulgarian capitalism today is no exception whatsoever from the general condition of capitalism in the world – a situation of deep crisis; the crisis, which it is undergoing, is not only economic, financial and agrarian, but it is also a crisis of the entire bourgeois science and culture” (Trudin 1932/1933: 155).

The model shared by this group is Marx’s theory of crises in capitalism, at the root of which is the deep contradiction between the social character of production and the private form of appropriation of goods (private property). Marxists believe that this contradiction is manifested

at a concrete level within multiple new contradictions between overproduction and underconsumption on part of the working class, a decline in the rate of profit as a result of increased organic composition of capital, a range of reproduction disproportions (between I and II sub-divisions), anarchy (see Mendelson's survey, 1959 [1949]) etc., which could ultimately be expressed in sociological terms as a struggle between workers and capitalists.

Or, to put it otherwise (this is my simplified interpretation), the Marxist theory of crises, closely related with the cyclic character of capitalist production, is a theory of the concurrent existence of underconsumption (of the working class) and overproduction, overinvestment in the first tier industries (means of production). The new in Marx's theory comes from linking the above disproportions with the mechanism of added value and profit, which are the main reasons. Added value and profit take us directly to a sociological interpretation of the crisis, to the interests and respectively the struggle of individual classes and capitalist groups. Following this line of reasoning, as Marx believes it (of course, again simplified), the technical, structural and economic disproportions are a function (manifestation) of social disproportions and class struggle. Following this reasoning further, in order to make a connection with the other theories of crises, with the latter the crises are mostly the result of economic disproportions, with some the disproportions are explored between production and consumption, with others between investment and consumption, with still others within the frame of the various phases of the investment process, etc. The impulses of crises are not given a sociological interpretation, either monetary, credit or purely technological.

Marx's concept was subsequently developed in a direction to monopolistic and imperialistic phase of capitalism, within which (here the Bulgarian economists closely follow Lenin⁷⁶) a *general* and final crisis of capitalism is observed⁷⁷. State interference and the fight for colonies are seen as a natural extension of the economic laws of capitalism, as attempts to save the

⁷⁶ According to Lev Trotsky Bulgarian Leninists was so strong in Bulgaria that physically tortured the Trotskists even in prison (Serge,).

⁷⁷ See the analyses of the notorious law of unequal development of capitalism (by country) formulated by Lenin (in my view as an attempt to justify the Russian revolution), expounded by Madgar (1932/1933, 128-134). The same author presents from Marxist point of view the different phases of the crisis: agrarian, financial, monetary, etc. Kunev (1932/1933) analyses the fall of the dollar in 1933, and Kovachev (another pseudonym of Ivan Stefanov) (1932/1933) shows the class character of injecting money in the USA banking system, which sooner or later will yield inflation that will hit the poor classes.

capitalist class and its levels of profit (added value). Not accidentally, there were many attempts to prove theoretically and empirically that the Bulgarian economy had fully reached the state monopolistic and financial oligarchic phase of capitalism, its society was sufficiently polarised between rich and poor, and no middle class or middle road existed.

Ivan Stefanov (V. Borisov) for instance presents a number of in-depth publications on each of these objectives. He displays statistically the existence of monopolies in the country and their coalescence with the state, and criticises the outlooks of other Bulgarian economists who argue that Bulgaria is not sufficiently industrialised (Stoyan Bochev), or that the monopolies (or “cartels” to use the fashionable language of the time) are a positive phenomenon transforming society onto a planned track without the need for social revolutions (Alexander Tsankov, Dimitar Burilkov, Petko Stoyanov, Georgi Petrov) (Borisov, 1932/1933; 1932/1933a).

In other articles the same author goes to prove the class differentiation of the peasantry as a result of the agrarian crisis (fall in prices and accumulation of debts) and the penetration of the financial capital in the village. This way the peasants, through their poverty, in characteristics and interests come close to workers, i.e. they become their class allies (Borisov, 1932; 1932a). It should be mentioned that the agrarian character of the Bulgarian economy had long been in the focus of Bulgarian Marxists, already before the Depression: analyses of the differentiation were made on many occasions in various party documents, in the case on Dimitar Blagoev’s report (BCP, 1921), or later in the idea of a “Common unified front against the advance of capital” launched by Georgi Dimitrov (Dimitrov, 1923). This paper by the way states (already in 1921):

“Capitalism today is going through the last stage of its development, i.e. imperialism, the dominance of financial capital.” (151).

Many concrete manifestations of the financial crisis were examined in the light of the class struggle, such as the condition of the banking sector (Kovachev, 1932/1933) and the interesting study of the debtors’ structure (Tersiev 1932/1933). V. Tersiev makes an original statistical analysis of the debtors’ structure during a discussion of debt remission (1931/1933). He presents and analyses the different reform proposals such of ((i) Dimitar Mishaikov – relieving the large and viable debtors through an external loan; (ii) Petko Stoyanov – relieving the size of price

decrease only for those who entered into loan agreements for the purpose of production; and (iii) Slavcho Zagorov – through a sinking fund related with the state budget) and shows that these reforms service only rich debtors and “put all debtors in the same pot”. According to Terziev, only the poor must and can be saved:

“The mass of debtors among the petty and middle class peasants, artisans, tradesmen, etc. owing money to usurers and small banks is huge, and therefore we shall not be wrong if we assume that at least” 4/5 of all debtors would be released in full from any obligations if total amount of all debts is reduced by around 40%, provided debtors who are well-off peasants, artisans, tradesmen, etc are not relieved at all” (Terziev (1931/1932: 952).

Marxist representatives are particularly critical of the models of planned economy, propagandized by some economists at that time (as we already mentioned). Especially telling in this relation are the reactions to Werner Sombart’s visit, which they use as an occasion to write some sharply polemic, yet generally serious articles. Sava Ganovsky (Trudin) and Ivan Stefanov (V. Borisov) offer interesting critiques of Sombart’s ideas, the former more in a philosophical aspect, while the second in relation to crisis and planned economy. Trudin (1932/1933a) attacks the Bulgarian scholars (mainly the Neo-Kantianist philosopher Dimitar Mihalchev) and Bulgarian bourgeoisie in general. In Trudin’s view

“Sombart was a dear guest to our bourgeoisie too. It expected to live through his lectures, even for a moment, the sweet illusions of overcoming the horrid crisis, which is shaking today the entire capitalist system inside out, and on the other – to feel, at least for a moment, Marxism refuted – the proletariat’s ideology, on which it builds its attack to overturn capitalism” (Trudin 1932/1933a: 303).

Ganovsky criticises Sombart’s philosophical and methodological postulates and concepts, his negation of the laws in history, the individualization of events, the subjective theory of value, etc., all this from the familiar positions of dialectical materialism mixed with quotations from Lenin. Ivan Stefanov, in turn, in two of his articles, the first on the outlooks of the future of Sombart’s capitalism (Borisov, 1932/1933c), and the second on planned economy (Borisov,

1932/1933a), gives the main principles of a Marxist interpretation of crisis and the ways out. According to Stefanov, the reasons for the crisis, put forward by Sombart (political factors, technical changes and currency supply increase) are only external; they are a manifestation of the already familiar essential contradiction of capitalism. Erroneous too is the model of exiting the crisis as advanced by the German scholar, namely through reformism, intervening of state, and social planned economy, “through the power of will”. In Stefanov’s view,

“if in the past the bourgeois political economy viewed the meddling of policy in economy as something wrong, as a disturbing factor, now the issue (in Sombart’s view) had to be seen inside out: now policy would decide it all with economy being taken as a side and disturbing factor” (Stefanov, 350).

Unlike the economists from the other schools who examine a structural model with the state as a class arbitrator (Alexander Tsankov), Marxists believe that the state “is not above classes”, but a representative of one particular class – that of capitalists. This determines their attitude to planned economy and the models applied in Germany and Italy and theoretically confirmed by many scholars. According to Stefanov “capitalist planned economy” is a “slogan to save decayed capitalism” (265); it is actually “just another edition of the long-bankrupt Katheder-Socialism” (266). This model is inapplicable and harmful as it presumes that through reforms in the sphere of distributions of incomes it is possible to resolve the crisis and mask the deep contradictions of capitalism. This line of reasoning is observed in Tsankov’s interpretations of the economic platforms and his grand speech of 1932, published by Jacques Nathan under the pseudonym B. Kamenov (1932/1933).

The outcome is clear: the crisis will lead to a socialist revolution like that in Russia and the Bolshevik model of planned economy will be implemented, because USSR was the only country unaffected by the depression. This is well generalised in the statement of the Russian diplomat Maxim Lithvinov at the London monetary conference in 1933 (summarised by Nikola Stoyanov, 1933, 622, who observes that the audience met the statement with laughter):

“Lithvinov declares that the global crisis has not stalled the sustained economic progress of USSR. There is no overproduction, no goods unsold, no unemployment, no reduction in wages, no increase in external debts, no bankruptcies” (Stoyanov 1933: 622)

In fact, the ideas of bolshevisation of the communist parties on the Balkans existed already before the Depression (Kolarov, 1926). According to Vassil Kolarov, due to the industrial underdevelopment of the Balkan countries and the vast peasant population, the chances of “opportunism” are high; therefore alliance between workers and peasants and applying Lenin’s principles is needed.

“Leninism is nothing but Marxism in the area of socialist revolution, the area of struggle to bring socialism into being,” (219).

The need for a broad alliance between the different suppressed classes and the democratic forces was put forward by Georgi Dimitrov, and later on during his offensive against fascism

“Fascism is not a form of state authority, which “stands above two classes – the proletariat and the bourgeoisie” as Otto Bauer for instance claimed it to be. [...] Actually, it is not. Fascism is not a supra-class authority of the petty bourgeoisie or the lumpen proletariat over financial capital. Fascism is the authority of financial capital itself.” (Dimitrov 1935: 252)

Following Bulgaria’s entry into the zone of German influence in mid-1930s, all Marxists rushed to launch attacks (some more sustained others less so) against the exploitation nature of German presence. Even scientifically unprepared future communist general secretary Todor Zhivkov took a stand in an article entitled “Stand up and fight”:

“The Hitler emissaries and their Bulgarian servants plunder our country with no shame, rob the people with no mercy, and take three skins off them... [...] The Bulgarian artisan has no raw materials, does not produce, and is forced to lead a life of misery and starvation. Many factories close because of lack of raw materials. Enterprises that are not needed by Hitler’s Germany are closed down” (Zhivkov 1942: 322).

IX

Concluding discussion:

Toward the theoretical interpretation of Bulgarian economic thinking

So, the short overview of the ideas, theories and fights of Bulgarian scholars from the time of the Great Crisis makes us think in a couple of directions at least. They could help us see the specific Bulgarian traits in today's discussions.

First, the analyses of crises reflect the range of issues facing the country's peripheral economy, the agrarian prevalence and partially that of the food, wine and tobacco industries, the weak capitalisation of the agrarian sector and the underdeveloped heavy industry (machines in particular). This explains the paramount importance of the issue of falling prices, the price gap, the debts of Bulgarian peasants, artisans, tradesmen, etc. Now the significance attached to building and protecting indigenous industry becomes explicable. This largely conditions the early appearance of elements of protectionism and exchange control.

Second, an important point, which is actually covered by all Bulgarian economists, is the role of the wars (both for Bulgaria and globally), the onerous political obligations (reparations) and overall vulnerability of Bulgarian economy from adverse external processes. The huge external debts and the country's dependence on foreign economy and foreign capitals ("balance of payments constraints") are major factors behind the existence of external and domestic political factors in explaining the crisis of that period.

Third, in the monetary sphere the Bulgarian economists remain orthodox supporters of the gold standard and balanced public finances. We should note here that Bulgaria continues to maintain gold coverage of the lev even after the franc devaluation in 1936. To a large degree this is determined by the fact that the country owes large amounts of debt in reparations and many new loans, as well as due to purely economic considerations of losing the vast voting majority in case of devaluation. The difficulties accompanying devaluation and deflation make a third alternative the only possible one, namely joining Germany's exchange control zone and clearing system.

Fourth, gradually realising that the crisis is neither cyclic nor conjunctural, as was initially believed, and under the sway of western theories, the majority of Bulgarian economists gradually worked out the elements of a new model of economy, called a planned or directed social economy, where the state is given an active role of a social arbitrator and a discretionary regulator of the cycle.

Fifth, as the view that the crisis changes capitalism fundamentally gained ground, various diverging opinions formed within the new interpretation mainly dividing the views into supporters of the German model of planned economy, on the one hand, and upholders of the Keynesian discretion and active monetary policy, on the other. And although, to me at least, no fundamental differences exist between the purely economic mechanisms of the above two alternatives, the adherents to the German model view themselves as more Totalitarian, while those in favour of the Keynesian regulation – as more democrats.

Sixth, in Bulgaria, the Marxist interpretation of crisis is popular and an object of many scientific and publicistic materials. The bulk of Bulgarian economists of that period were knowledgeable and up-to-date with the western theories. Although under the influence of Soviet reality and Soviet ideas, Bulgarian Marxists, or part of them at least, made efforts to produce in-depth analyses and keep themselves informed of current western theories and practice.

Seventh, the big crisis is a test of the viability of the different theories and their ability to explain, predict and offer economic solutions. Not by chance does the "fight" on this front of ideas become a major element of the fight between the representatives of different interests, either class or national. Especially aggressive in this respect are the Marxists, to whom the defeat of the "bourgeois" explanations of the crisis and the "reformist" models of planned social economy become a matter of life and death. The idea of the scientific fight is to attract as many supporters to a given cause (mainly political or economic) as possible. Of course, there are many economists, armchair scholars mainly, who try to analyse processes objectively; these however are mostly an exception. The Bulgarian economic scholars are, for their greater part, involved in political, government or highly paid private activities; therefore, their policy and their interests can not be isolated from their theoretical analyses.

One thing however is obvious. The Bulgarian economists in their interpretation of the crisis and their concrete analyses, regardless of their positions and ideological biases, keep up a very high theoretical level. A closer look at what is done in the other countries during that period shows that the Bulgarian economists were aware of the seriousness of theoretical discussions and the need of professional attitude to research. Finally yet importantly, Bulgarian economists worked and read a lot, tried hard to keep themselves abreast of the current western theories and events world-wide. I regret having to say this, but if they were to come to life today, they would have been amazed and shocked by the mediocrity and the general lack of any theoretical economic discussion.

Chart 3

The Bulgarian economy, 1928-1940

Chart 1 The Bulgarian economy (1928–1940)

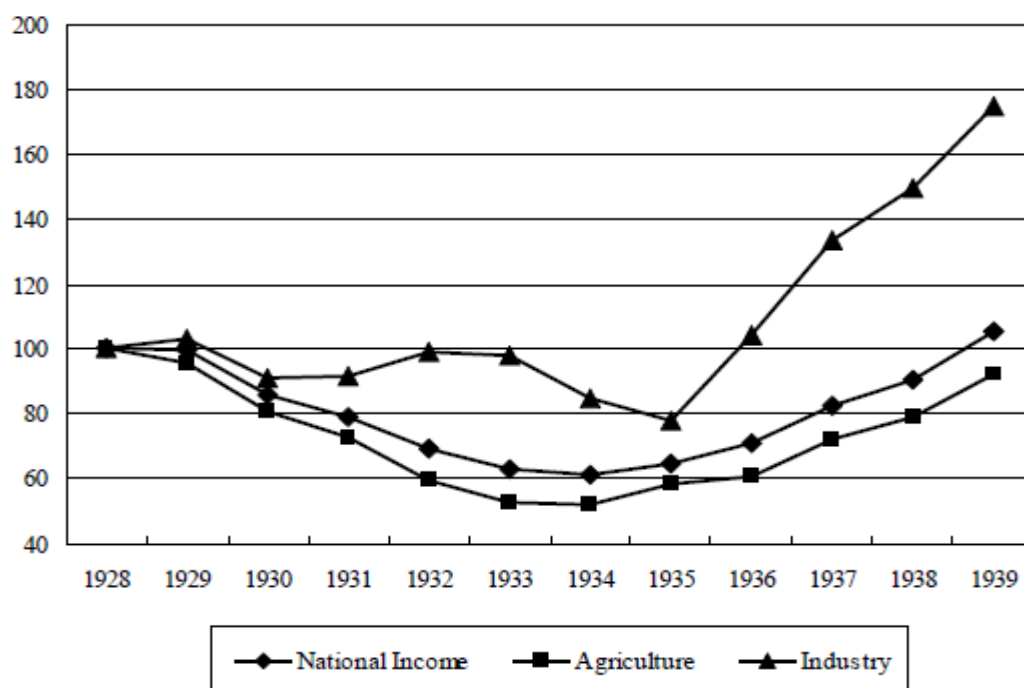


Table 3:

Selected Bulgarian macroeconomic indicators, 1927-1939

| Years | Total reserves (mill of levs) | Coverage ratio (%) | Trade balance (mill of levs) | Budget balance (mill of levs)1 | Years |
|--------------|--|---------------------------|---|---|-----------------|
| 1927 | 13078 | 28.3 | 489 | | |
| 1928 | 12897 | 31.2 | -810 | 347 | 1928/9 |
| 1929 | 8984 | 42.2 | -1928 | 185 | 1929/30 |
| 1930 | 9249 | 37 | 1601 | 1143 | 1930/1 |
| 1931 | 8620 | 36.6 | 1274 | -891 | 1931/2 |
| 1932 | 7519 | 35.8 | -88 | -746 | 1932/3 |
| 1933 | 7442 | 36 | 644 | -233 | 1933/4 |
| 1934 | 7278 | 35.3 | 287 | -246 | 1934 (9 months) |
| 1935 | 6549 | 34.4 | 244 | -278 | 1935 |
| 1936 | 7158 | 33.8 | 729 | 283 | 1936 |
| 1937 | 8196 | 31.9 | 34 | 642 | 1937 |
| 1938 | 8250 | 31.8 | 644 | 510 | 1938 |
| 1939 | 11677 | 29.9 | 868 | | |

Note: 1) Hristophorov, A. (1939), p. 139.

Source: Statistical Yearbooks of the Kingdom of Bulgaria, (1934, 1937, 1941).

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BNB – Bulgarian National Bank
GC – Governing Council
GDA, CM – General Department of Archives at the Council of Ministers

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