Theoretical Debates in Bulgaria during the Great Depression

Confronting Sombart, Marx and Keynes

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The main purpose of this article is to understand how Bulgarian economists interpreted the Great Depression, by reviewing the theoretical models they used and the solutions they advocated. In particular, this means: (i) clarifying what made them gradually realise the structural characteristics of the crisis and (ii) identifying the main channels and the main theories underlying the analysis of crises and depressions. The paper comprises six sections. The first section offers a brief survey of the Bulgarian economy and political developments prior to the Depression. Section two presents Bulgarian economic thought on the eve of the Depression according to five intellectual currents. Section three identifies and discusses the two main models of interpretation of the Great Depression—a cyclical and a structural model. The next two sections explain the evolution of economic thinking following the main phases of the crisis (deflation/agrarian crisis and monetary/banking crisis). Section six focuses on Marxist interpretations of the crisis. The last section offers a few concluding observations.

Keywords : Great Depression, Balkan economies, Bulgaria, Marxism, agrarianism, crises, Keynes

Débats théoriques en Bulgarie durant la Grande Dépression. Une confrontation entre Sombart, Marx et Keynes

L'objet principal de cet article est de comprendre comment les économistes bulgares ont interprété la Grande Dépression, c'est-à-dire, de mettre en évidence les modèles théoriques qu'ils ont utilisé et les solutions qu'ils ont

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défendu. Plus particulièrement on cherchera (i) à clarifier ce qui a conduit les économistes à réaliser progressivement les caractéristiques structurelles de la crise et (ii) à identifier les principales filiations théoriques qui sous-tendent l'analyse des crises et dépressions. L'article comprend six sections. La première section expose brièvement la situation de l'économie bulgare et les développements politiques antérieurs à la Grande Dépression. La deuxième section présente la pensée économique bulgare à l'aube de la Grande Dépression, selon cinq grandes traditions intellectuelles. La troisième section identifie les deux grands modèles d'interprétation de la Grande Dépression (un modèle cyclique et un modèle structurel). Les deux sections suivantes expliquent l'évolution des idées économiques en Bulgarie suivant les phases de la crise (déflation et crise agraire, puis crise monétaire et bancaire). La dernière section conclut.

Mots clés : Grande Dépression, économie des Balkans, Bulgarie, marxisme, agrarianisme, crises, Keynes

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In this paper, my ambition is to elaborate on two main issues. The first one deals with the way the Bulgarian academic community interpreted the Great Depression, the theoretical models Bulgarian economists used in their thinking and the practical solutions they offered. This is achieved by describing the typical elements that led to their theoretical and practical models and emphasizing the specifically Bulgarian interpretation of depression. The second issue involves identifying the main factors leading to the build up of Bulgarian knowledge on crises and depressions. One approach deals primarily with the role of the economic and social reality during that period, while the other addresses the sources of intellectual and theoretical concepts forming the theoretical resources of Bulgarian economists, and the schools and ideas that influenced them.

The history and analysis of the theoretical discussions and policy interpretations of Bulgarian economists during the Great Depression have rarely been studied. Some useful research was done during the socialist period with respect to the so-called Marxist political economy but is largely tainted with ideological clichés (see, e.g., Grigorov, 1960; Nathan and al., 1973). During the post-communist period, Rumen Avramov (2007) analysed different aspects of Bulgarian economic thinking on a long-term historical perspective of the Bulgarian economy and Martin Ivanov (2001) analysed them with respect to interwar economic history and foreign debt issues. The only publication specifically devoted to a Bulgarian economic discussion of the Great Depression is by Stefan Kolev (2009), who addresses the main points of the discussion and emphasizes its leading protagonists. His article gives a range of starting points for new research and interpretations. Stefan Kolev draws a parallel with the theoretical discussion in Bulgaria today, stressing, however, the higher training and knowledge of Bulgarian economists of that time and their detailed and original analyses as compared to the scarce or very poor analyses of Bulgarian scholars today.

In this study, I propose a different analytical perspective, stressing the evolution of Bulgarian economists' thinking about the Great Depression with respect to the development of economic reality and the main theoretical interpretations abroad. The paper also offers a sociological perspective on Bulgarian economists and compares the characteristics of different groups of authors. The paper is organized in six sections. Section one provides a brief survey of the Bulgarian economy and political developments prior to the Great Depression. Section two presents Bulgarian economic thought on the eve of the Great Depression according to five intellectual currents. In the third section, I propose two main models of interpretation of the Great Depression (cyclical and structural), as well as different forms of structural model ("German planning", "Keynesian discretion", or "Marxists revolution"). The next two sections explain the development of economic thinking in relation to the main phases of the crisis (deflation/agrarian crisis and monetary/banking crisis). In the final section, I discuss the specificities of the Bulgarian interpretations of the Great Depression and provide a few concluding observations.

1. Bulgarian Economic and Political Development before 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 (27th November 1919), Bulgaria had to pay a huge foreign debt and, above all, reparations which came to a quarter of the national income.[1] Inflation ("expensiveness" [*skapotia*] – the term used by the Bulgarian economists at the time to describe price hikes) was soaring and the national currency (the *lev*) devalued heavily (26.65 times over the extended period of 1912 to 1923 (Toshev, 1928: 116, 172)).[2]

1 On Bulgarian economic development in the 20th Century, see Avramov (2001), in Bulgarian, and Lampe (1986) in English. For more detailed studies and surveys see Hadjimischef (1920), The Royal Institute of International Affairs (1936), and Kioseva (2000).

2 Regarding the figures and statistical data, I prefer to use original Bulgarian sources and documents from the period under study (after checking them obviously for consistency).

Public finance was running havoc since the budget deficit over the period 1916–1918 was about 1.5 bill gold *levs* and the central bank (Bulgarian National bank – BNB) financed almost all the government's war expenditure (Ivanov, 1929, 139). Between 1919 and 1929, the trade balance showed a deficit except for three years, when the surpluses were far too small to make up for the negative balance during the rest of the period (Svrakov, 1936, 300). As a result, the quantity of banknotes in circulation increased around 14 times and the coverage fell to 3.2% of gold banknotes and 5.9% of silver notes. The public debt and particularly the "flying debt" reached perilous amounts. Between the close of 1918 and the end of 1922, even before reparation payments began on 1st October 1923, the foreign debt service reached 112 million gold francs or 16.3 percent of budget spending. Reparations under the Treaty of Neuilly were added to this debt, reaching 2250 million gold francs at 5 percent annual interest over 37 years plus occupation expenses representing a quarter of the national wealth. French claims on Bulgaria were about 26% of the overall external Bulgarian debt (next in Bulgaria's list of creditors 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 total external debt (Koszul, 1932, 40).

In spite of its difficult situation, Bulgaria made huge efforts to be on record as being a "good" debtor who not only bore the debt burden on its own shoulders but also refrained from obtaining preferential debt relief (Ivanov, 2001). The convertibility of the *lev* was *de facto* interrupted at the beginning of the Balkan wars (10th October 1912) and legislation suspended unconditional government financing in January 1919. It was assumed that the break of the convertibility rule would be temporary. Later, Bulgaria lost significant sums through having its Reichsmark assets blocked in German banks and subject to sharp falls in value. Since these marks represented part of the coverage for Bulgarian money, this brought another blow to the *lev*.

As in other European countries, financial stabilisation was conducted following orthodox monetary ideology, which saw a stable currency and balanced public finances as the basis for economic development.[3] The Law on the BNB dating back to 20th November 1926 was regarded as an important step towards stabilising the *lev*, by ensuring the convertibility of the *lev*, thus accelerating the transition to the gold-exchange standard. According to Article 8 of the Law, the banknote coverage ratio was set at 33.1/3% and aimed to reach 40%. Although this law defined the coverage of banknotes in circulation, it did not set the exchange rate to gold, i.e. the gold content of the *lev* had not been determined. With the Stabilisation Law (3rd December

3 See Nenovsky (2006), Koszul (1932).

1928), the *lev* was finally and legally pegged to gold as the exchange rate of "92 *Levs* per 1 gram of pure gold" was established in Article 1. Accounting for the BNB commissions, the exchange rate of 139 *levs* per US dollar equalled 139 *levs* per 1 $^1/_2$ grams of gold (i.e. the gold content of the dollar).

Bulgaria's economic development could not be viewed in isolation from political and social processes.[4] In March 1920, the Bulgarian Agrarian People's Union (*Bulgarski zemedelski naroden sayuz*, *BZNS*) won the elections. Prime Minister Alexander Stamboliyski (from 1920 to 1923) made systematic attempts to apply the main principles of agrarianism and overcome the country's isolation.[5] Stamboliyski's regime also rested on authoritarian methods and political repression (his "Orange Guard"). On 9th June 1923, a coup was staged against him by the Military Union led by Ivan Vulkov; Stamboliyski was killed and the new government formed was led by the economics Professor Alexander Tsankov (as representative of the newly established Democratic Alliance Party [*Demokratichen sgovor*]). As a reaction to this rightist overthrow, the September uprising (*Septemvriysko vastanie*) broke out (September 1923), sparked off by ideas from the USSR encouraging a new left-wing revolutionary wave in Europe. The uprising was brutally repressed and in 1924, following the adoption of a law on the protection of the State against terrorists and revolutionaries by Tsankov's government, the Bulgarian communist party was banned. The communists responded with the St. Nedelya Church bombing on 16th April 1925, when 150 people were killed and the Tsar survived the attack by mere chance.

The Democratic Alliance was in power until 1931 (in 1926, a fraction of the same party led by the economist Andrei Lyapchev formed a government). It was during Lyapchev's term of office that Bulgaria overcame its financial isolation. Two loans—the Refugee Loan and the Stabilisation Loan—were granted, the *lev* stabilised and the economy registered some growth. It is worth noting that the two prime ministers, Alexander Tsankov and Andrei Lyapchev, were both economists actively involved not only in developing the country's economic policy, but also in the theoretical discussions of that time. This will be examined further below.

The economic recovery was halted by the Great Crisis. The democratic parties forming the People's bloc (*Naroden blok*) coalition (Alexander Malinov and Nikola Mushanov) won the elections and remained in power from 1931 to 1934. In 1932 Alexander Tsankov launched his People's Social movement, following the trend of

4 About Bulgarian history, see Crampton (2007). For a short survey of the history of the Balkans, see Mazower (2000) and Franzinetti (2009).

5 See Bell (1977).

authoritarian regimes in Europe, especially Mussolini's. On 19th May 1934, a military coup was staged, which put an end to the short democratic period and marked the beginning of the autocratic reign of Tsar Boris (political parties, including Alexander Tsankov's party, were banned). Despite the desire for neutrality and much political manoeuvring, Bulgaria was gradually drawn, economically, financially and politically, into the orbit of Germany and the rest of revenge-seeking countries, and in March 1941, Prime Minister Bogdan Fillov signed the country's accession to the Tripartite Pact in Vienna.

2. Bulgarian Economic Thought on the Eve of the Depression

In the years before gaining independence from the Ottomans, and especially after obtaining political independence, the first publications of Bulgarian economists were issued (the publications were above all related to the practical and closely related tasks of defining the institutional and legal basis for the new state). Going back to the initial conditions of the Bulgarian economy after acquiring independence, we see that despite certain liberal tendencies, partly due to the rejection of the role of the State by principle after the close association with the Ottoman State, the historical school of economics was more in tune with the interests and objectives of the emerging Bulgarian elite. In this respect, we might call this a model of "liberal nationalism" (David, 2009). Before World War I, and particularly after the war, the theoretical debates were again dominated by practical tasks, and Bulgarian economists generally followed the conceptual directions of their Western colleagues (for details on the genesis of Bulgarian economic science, see Nenovsky (2011b)).

On the eve of the Depression, there were not that many Bulgarian economists. They were mainly concentrated in Sofia, Varna and later, Svishtov (where higher schools of learning were located) in State institutions such as the Bulgarian National Bank, the Ministry of Finance, the National Statistics Institute, as well as private banks. The Bulgarian Economic Society (established in 1895 and closed in 1949) was especially active. It acted as the centre of many discussions and issued its own monthly Journal of Bulgarian Economic Society – *Spisanie na balgarskoto ikonomichesko drujestvo* (usually 10 issues per year), released for the first time in 1896. During the period 1929-1938, a second economic society was established, the Society of Academic Economists. According to its statutory documents, it set forth to address tasks of more theoretical and interdisciplinary nature. The *Archive for Economic and Social Policy* (*Archiv za stopanska i socialna politika*), edited by Petar Djidrov, was a quarterly journal, and generally gave space to leftist and Marxist economists and scholars. 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 director). The Institute became a major centre of quantitative and business cycle analysis of Bulgaria's economy and brought together many talented young Bulgarian economists.

For analytical purposes, we can classify the Bulgarian economists into five groups.

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

> "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." (Quote based on Bobchev, 1933a, 540)

This statement by Lyapchev reveals more of his views on the method, and less of Ivan Evstatiev Geschov's outlook, whose leanings, I think, were less towards the historical school than classical political economy. According to the recollections of Geschov (1849-1924) himself, he was under the strong influence of John Stuart Mill, and attended Jevons' lectures during his long stay in England.[6]

6 Ivan Geschow (Gueschow) was a brilliant student of Jevons (see Geschow, 1916) and was cited in a footnote by Vilfredo Paretto in his *Corso di economia politica*, Pareto (2009 [1942, French editions 1896, 1897], 355). There, he cites a speech of late 1895 by Ivan Geschow, where the latter gives a quantitative example of *agio*, and in particular of a positive correlation between the increase of agio on gold and the increase of silver coins in circulation (it is not clear, to me at least, whether this refers to Argentina or to Bulgaria). The name of Ivan Geschow is not included in the name index of the *Corso*.

Later on, most of the economists from this group came under the influence of the marginalist school, which quickly spread across Europe. This occurred by means of other theories and a number of theoretical syntheses (such as Tugan-Baranovsky's). To express this synthetically, these scholars were proponents of the classical school for microeconomics, and of the German historical school for macroeconomics and economic policy. These positions therefore kept them from having a special theory on crises and depressions since such issues were rarely the object of the theories they shared, the economy being generally assumed to be self-balanced.

The second group (B), which is close to the first one, includes the more prominent proponents of the historical school, the theory of protectionism and the role of the state, even though they globally shared liberal economy principles. In these scholars' economic theories, the classical theory component diminished, earlier and more rapidly. Most of them had graduated in Germany. This group included among others Konstantin Bobchev, Georgi Svrakov, Stancho Cholakov, Stephan Bochev, Hristo Peev, Todor Kalinov, Dinko Toshev, and Kiril Nedelchev. 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 to 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, in 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 is that when resolving economic tasks one needs to 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)

Within the historical economic approach, two names stand out and can justifiably claim theoretical and general scientific originality. The first is Ivan Kinkel (1883-1945), an interdisciplinary scientist who proposed an original theory of economic development in 1921, and later developed it in different directions. The second is Ivan Sakazov (1895-1939), an economic historian who conducted a very thorough study (based on archival research) on the medieval economic history of Bulgaria. Both had obtained their doctorates in Leipzig (Kinkel in 1911, and Sakazov in 1921). The former could be considered representative of "theoretical" economic history, and the latter of "historical" economic history.

These two groups of economists (*A* and *B*) held Werner Sombart in high esteem, particularly in the last phase of his creative development when he proclaimed the so-called directed, planned and social economy, and they organised his visit to Bulgaria (25th October – 2nd November 1932) as well as numerous translations of his works. The same group of economists (notably K. Bobchev) organised the visit of the Romanian professor and politician Mihail Manoilescu in 1933. Curiously enough, it is worth noting that Georgi Svrakov, although under Sombart's strong influence, was going to be the prime, and probably the exhaustive, promoter of Keynes' ideas and the *General Theory* (Svrakov, 1938).

The third group of scholars (C) exclusively includes proponents of the Austrian variant of the subjectivist school and methodological individualism, who consistently applied its methodology (Simeon Demostenov, Dimitar Mishaikov and Naum Dolinsky, at least in the beginning). Naum Dolinsky reviewed Boris Bruzkus's book *Die Lehren des Marxismus im Lichte der Russischen Revolution* issued in German in 1928 in Berlin, and subsequently popularised and issued with a foreword by Hayek who expounded the fundamental economic infeasibility of developing a planned economy and socialism in Russia (Dolinsky, 1930). Dolinsky emphasised the book's relation to the ideas expressed in Ludwig Mises's *Gemeinwirtschaft* (1922) and Peter Struve's *Economy and price* ("*Hoziastvo i cena*", 1913). Most of the authors from group C, especially Demostenov and Dolinsky, virtually did not take part in practical life and remained armchair scholars. Although they did not present any studies focusing particularly on crises, they shared the idea of a monetary explanation of overinvestment/mal investment. One remarkable and original figure in this group is Simeon Demostenov, who was an exceptional authority on the history of monetary theories and a proponent of the Austrian school. He criticised and further developed the Austrian theory of money and value along many lines (his theoretical exchanges were mostly with Carl Menger and Ludwig von Mises). Demostenov was the author of the original theory of monetary universals ("*Universae* monétaire", general concepts and categories of money), which determine the global-to-national money ratio, 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 his stay, attended Carl Menger's private seminar.

The fourth group of scholars (D) mostly comprises a younger generation of scholars, whom we might conditionally call monetarists and quantitative economists (Slavcho Zagorov, Assen Hristophorov, Ivan Stefanov, Assen Chakalov, Zhelyo Burilkov, Nikola Stoyanov, Assen Kemilev and Assen Ivanov). For the most part, they were influenced by quantitative methods and newly emerged business cycle analysis. Assen Hristophorov was among the few Bulgarian economists who studied at a British university (The London School of Economics) and fell under the influence of economists in the vanguard of monetary theory and economic cycles (Hawtrey, Pigou, Canon, and later Keynes). Through Hayek, who was at the time very popular in England, he also adopted many cycle ideas from the Austrian school, which he applied at a later stage in relation to war economy and to analyse the role of central bank monetary discretion (Hristophorov, 1943 and 1946). Slavcho Zagorov, who studied in Germany and was for a period of time director of the Bulgarian Statistics Institute, was in correspondence with the leading econometricians of that period and published an article about the USA prices in the *Journal of Political Economy* (Zagoroff, 1934).

The above economists were, in various ways, under Oscar Anderson's (1887-1960) influence in the institute which he run. Famous economists specialising in business cycle analysis visited the institute: Oskar Morgenstern, for instance, gave two lectures in April 1935. The famous Russian economist and white émigré Peter Struve, who worked in Belgrade at the time and was not exactly a business cycle specialist, also had to give a lecture on the topic. For the majority of the economists in this circle, the problems of the crisis were genetically related to the cycle; crises were seen as a phase of the cycle and not as fundamentally structural or systemic, and crises that could also be understood and analysed in quantitative terms. 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 could not but impact their publications and analyses.

The last and fifth group (E) includes the proponents of Marxism in its more orthodox forms, such as Karl Kautsky, Rosa Luxemburg, Hobson and Lenin's theory of imperialism, or Hilferding's financial capitalism. A prominent figure here is Dimitar Blagoev (1856-1924), the founder of Marxism and first translator of *Das Kapital* in Bulgaria. In this group, I would like to mention the names of Vassil Kolarov, Hristo Kabakchiev, Georgi Bakalov, Georgi Dimitrov, Todor Pavlov, Todor Petrov and G. Toshev, although most of them were not professional economists, but basically 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), Jacques Nathan, and Sava Ganovsky published a critique of Sombart's ideas from the standpoint of Marxism. These economists had thorough knowledge of Marx's theory of value formation and added value, and of its laws of economic and social evolution. They were familiar with Rosa Luxemburg's new studies on capital accumulation and Vladimir Lenin's works on imperialism. Crises in this model were seen as a genetic extension of the contradictions of capitalism, expressed in concentrated form as a 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 and the increase of the organic composition of capital and the different types of disproportions between sector I and sector II.

3. Two Interpretations of the Depression: Cyclical and Structural

In most general outlines, the two major interpretative models of the crisis could be formulated as follows: the first viewing the crisis as a natural point in the development of the market (initially agricultural) and as a cyclic and transitory phenomenon, with no need for interference from the outside in market mechanisms and forms of private property (we could refer to this model as a *cyclical model*); the second model, interpreting depression as a fundamental structural break-up leading to irreversible long-term changes both purely technologically and in terms of mechanisms of economic coordination (we could call this a *structural model*). The concrete interpretation of the causes and mechanisms of the crisis follows the conceptual spirit of the two models. The first model dealt with market issues, agricultural or otherwise, and the descriptions fell within the interpretation framework of the purely mechanical movement of prices and quantities. The second approach saw, beneath the movement in prices, a deep change in the character of economic processes and a dislocation of the global economic and political balance.

For analytical purposes, the cyclical model could be split into two variants, both presuming that there is no need to intervene in the market process. The first one was more descriptive and empirical, and in the vein of Mitchell and Burns' efforts to define various indicators capturing the development of business cycles. The second variant was represented by the monetary interpretation of the business cycle in the spirit of the Austrian school.

The structural model also took different forms. Leaving aside the Marxist variants, two other forms appeared. The German and Italian directed economy (*économie dirigée*) model came first chronologically and regarded intervention by the State more in political and moral terms stressing the urgent need for regulating the supply side of the economy through the nationalisation and protection of the national industry. Sociologically, in this model, the State was considered as an incarnation of the national spirit and as a class pacificator. To the extent that this structural model would rapidly be dressed in totalitarian clothes, the Keynesian model appeared as a solid alternative, one that preserved democratic principles. The economic side of this model was oriented more towards manipulations on the demand side through deferment methods (monetary and fiscal) but always based on scientific and technical models and statistical measurements. In short, while the German-Italian model of planned economy could be referred to as *political* or *moral* (at least in its intentions), the Keynesian model of managed economy could be judged *scientific* and *rational*.

At the onset of the crisis, the cyclical model was followed by most of the economists from group *A*, *C* and *D*, as well as by some of the economists from group *B* (historical school). The second structural model was followed by the majority of the historical school representatives (group *B*) and the Marxists (group *E*), both having their own interpretation of developmental trends: the first in a strongly evolutionary vein, and the second looking for the emergence of the new communist system. Over time, as the crisis intensified, most of the scholars of the cyclical interpretation (*A*, *C*, and *D*) oriented themselves towards a structural understanding of the depression, except for a few of the most radical representatives of the subjective school (*C)*, such as Simeon Demostenov.

The change in the perception of crises was gradual and involved certain twists and turns as Bulgarian economists had to take clear positions with regard to Marxist assertions on the abolishment of private property and the building a socialist society. This could be clearly seen for example in an article by Todor Kalinov (Kalinov, 1932, 26-27), where he states the dilemma of "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, on the other hand, is definite in his assessment:

> "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 equality. Pure capitalism, just as pure communism, is only a fiction, a utopia, because they cannot create order, and order means subordination: there is no creativity without order." (Nedelchev, 1941, 13)

Konstantin Bobchev, who was later to become a major mouthpiece of the models of directed economy and protection of the Bulgarian industry, was still sceptical at the beginning of the Great Depression about the State being able to have command of the economy. Having defined various types of "economic imbalances and economic contradictions" in relation to the mismatch between demand and supply (Bobchev, 1932, 56-57), he observes that the state was giving faulty signals by trying to stop 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; and 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 proposition of the structural model inevitably led to its breaking up into sub-models and to the radicalisation of positions within the main alternatives. Thus, for instance, the Marxists (group *E*) assumed extreme revolutionary interpretations of the depression. The rest (*A*, *B*, *C*, and *D*), evolved towards the acceptance of the Keynesian model (further developed into his *General theory*) while looking for an alternative to the German model of planned economy and the Marxist and Soviet interpretation of the historical moment. This tendency was followed by Georgi Svrakov, Slavcho Zagorov, Assen Hristophorov, etc. As mentioned earlier, Zagorov and Svrakov were the first to introduce Keynes's ideas. To the very last (or at least until he emigrated), Slavcho Zagorov remained loyal to the quantitative theory of money despite Keynes's critique. Evidence of this can be found in Zagorov's theoretical article, published in 1935 under the title: "System and level of prices", in which he examines the relationship between relative prices and the overall level of prices. The article is an indication of the fact that Zagorov considered the dichotomy of the classical model as proven, in stark contrast with the outlook of the Austrian monetary school developed during that period, which proclaimed that such distinction was not possible, and that money was not neutral.

Assen Hristophorov, on the other hand, having set an example of quantitative conjuncture analysis 1934-1939 in his book *The Business Cycle in Bulgaria, 1934-1939* (Hristophorov, 1939), was clearly on the path to analysing the deep, essential changes occurring in the economies during that period in his later book on the political economy of war (Hristophorov, 1943), despite the subtitle *Theory of war-time economic conjuncture*. For Hristophorov, war economy follows 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 respective regime in the collectivist socialist economy. Times change . . ." (Hristophorov, 1943, 364)

The views held by Bulgarian economists on depression closely followed the different phases of the Depression. Two of them were crucial: the agrarian crisis and the monetary devaluations.

4. The Agrarian Crisis: from Cyclical to Structural Interpretations

In 1928/1929, prices of agricultural products began falling sharply on international markets, which negatively affected revenues from Bulgarian exports (Lyapchev 1930, Tsankov, 1932).[7] On the commodity stock exchange markets in Varna and Burgas, grain prices fell by more than 50% (Bliznakov, 1931, 287). This threatened foreign reserves and the respective servicing of the huge external debts. The price developments cancelled any plans for the liberalisation of foreign trade and measures for trade and exchange controls were strengthened. This was followed by 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 and was transformed into the Foreign Trade Institute (*Institut za vunshna turgovia*) in 1940. Earlier, in 1930, the Food export agency (*Hranoizno*s) 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 subsequently a quarter of the payments—to farmers were made in the form of treasury bonds representing domestic government debt, which amounted to around 400 million gold *leva* (Berov, 1989, 465).

The fall of agrarian prices made Bulgarian economists refer to the crisis as agrarian since they focused on the falling prices. Thus, for instance, Yanchulev (1930, 245-246) in his report presented in March 1929, said: “the agrarian crisis . . . in general is seen as such a 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).

The analyses of other economists (Lyapchev, 1930; Dolinsky, 1931; Tsankov, 1929) went along the same lines, with debates about whether this was a crisis triggered by overproduction and protectionism in the USA and Canada, or by a decline in purchasing power in Europe due to the reparations and debts, the spirit of some proto-Keynesian analysis of effective demand. Although most Bulgarian economists considered the crisis was an imported phenomenon, an opinion gradually emerged according to which purely internal reasons also

7 On the mechanisms of the agrarian crisis, see also Robbins (1934), Hautcœur (2009).

existed—such as the distortion and one-sided development of the 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). Yanchulev (1930, 262) went on to say: "The agrarian crisis in Bulgaria is therefore cyclical and structural", and again 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." (Yanchulev, 1930, 272) Dolinsky (1931, 27-28) saw the reason for the crisis as "lying deep in the soil of the national economy with the international situation only speeding up its emergence". He believed that "organizationally and technically the Bulgarian rural economy is in sharp divergence with its socio-economic character", i.e. the work force was plentiful and there was little capital (Dolinsky, 1931, 30-32). Yanchulev held the view that producers themselves should organize the export of agrarian products through co-operations or unions but not through the state.

Andrey Lyapchev (1930) interestingly analysed who benefits and who loses from the drop in prices (an analysis which is both sociological and quantitative). He was a liberal who believed that the main reason for the short-lived decline in prices was precisely because they had been artificially maintained at abnormally high levels for a long time. As Laypchev points out, prices in 1928 were 50% higher than pre-war levels, and the decline was therefore natural. He was 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:

> "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 redistributive processes in the Bulgarian economy held much similarity to the analysis of the so-called *price scissors*, 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 or even go up. This keeping of industrial prices at a given level was explained by the existence of cartels and state protectionist policies. Many economists tried to outdo each other in constructing indices suited to measure this gap (remarkable in this respect were the studies of some representatives of the Statistics Institute).

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 and to serve the foreign debt. Dolinsky's article (1932) is very telling in this respect. It describes the chain of causes and effects according to a "structural"—rather than "cyclical"—interpretation of the crisis. And according to the end result of his calculations (forecasts of the export volume and burden of payments – interest and annuities), Bulgaria was unable to serve its obligations and had to suspend payments, at least for a while.

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

Palazov (1932) advised that the BNB should reduce the discount rate, which, as he believed, it kept high in an (unfortunately ineffective) effort to attract foreign capital, and recommended an individual approach to debtors instead of a general debt cancelation. The debts to the state-owned banks (BNB, Bulgarian Agricultural Bank, and Bulgarian Central Co-operative Bank) were around 5.5 billion gold *leva*, to private banks (foreign and 134 Bulgarian banks) 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*, i.e. a total of 15.4 billion gold *leva* (Palazov, 1932, 206). As to the debts of peasant farmers alone, these, according to Tsankov (1932, 11-12), were around 9 billion gold *leva*, of which circa 75%-80% were owed to public credit institutions, 92% of this amount being a short-term debt. Still according to him, around 20% of this debt was to make a living. Tsankov saw the situation of citizens as equally difficult, with a debt per capita of 142 gold *leva*. Palazov (1932) did not fail to mention the strong demagogy and partisan bias of promises for total debt remission to attract maximum voters and pass bills in Parliament.

Resolving the agrarian crisis also relied to some extent on international cooperation within the framework of the so-called Agrarian bloc, the set up of a "monetary normalisation fund" being proposed to ensure a normal inflow of capital from the European periphery. The Agrarian bloc was established in 1930 and held one of its meetings in Sofia in 1931. The Conference in Stresa in September 1932 became a much discussed and analysed event (for example Stoyanov [1933] who mentions Keynes's ideas of one-off agreed inflation or reduction of monetary coverage). Bulgarian economists were 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.

The Bulgarian economists did not specifically elaborate on this episode of the US financial market and bank failures; this nevertheless provided them with a basis to delve into their interpretations of the crises as structural and global (Tsankov, 1932).

5. The Monetary and Banking Crisis: the Structural Model Prevails

The decisive phase of the Great Depression period was the banking crisis in Austria and Germany, which led to a currency crisis of the pound sterling and its devaluation in the summer of 1931, and that of the dollar in early 1934. The crises of those two main currencies began to affect Bulgaria directly and thus became the subject of numerous analyses (Delaisi, 1933, Robbins, 1934).

Generally at that time, countries used independent strategies to adjust to the crisis. Three blocks were formed: a first group of countries which devalued their currencies (the United Kingdom, the USA, and for example Greece, Bulgaria's neighbour, in 1932); a second group of countries, which maintained the gold standard, with France in the lead, and led a strict deflationary policy to limit wages and the rise in prices; and, finally, a third group of countries which preserved the exchange rate parity and exercised strong exchange control (Germany, Italy, Hungary and Austria). Bulgaria joined the third group, being sceptical about the foreign trade liberalisation measures recommended at the 1927 Geneva Conference. Bulgaria continued to maintain the fixed exchange rate and its convertibility, and after the devaluation of the US dollar in 1933, the *lev* was pegged on the French franc. After the devaluation of the franc in 1936, the Governing Council of the BNB continued to maintain the fixed exchange rate 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, 2004, 557-562).

The devaluation of the main currencies made Bulgarian economists finally begin to view the crisis as deeply fundamental, and most importantly, as having numerous manifestations. The range of analyses increased. The basic range of issues, apart from the explanations of the currency crisis, were narrowed down to monetary issues, exchange rate and trade control, the state of the banking system and the need for its regulation; stimulating the national industry through protection of the national economy, and Bulgaria's external debts servicing.

The above topics were not only addressed because of the serious problems affecting Bulgaria's economy, but also as a result of the development of western thought and were approached with the instruments of modern western theories. These were mostly the new theories of managed or administrated social economy, which saw the role of state and government (incarnation of state power) as a central mediator and supreme arbitrator between antagonistic social classes and groups. Under different variants, this model was popular in Germany and Italy and was concretely examined in a number of economic papers. It was no accident if during this period, the Bulgarian economists invited renowned scholars, among whom Werner Sombart (1932) and Mihail Manoilescu (1933) to popularise this model and have it recognised.[8] During that period, a number of Italian scholars visited and had their works translated. This was the case for jurist Giorgio Del Vecchio (who visited Sofia in May 1934) and the politicians and jurists Giuseppe Bottai and Alfredo Rocco (his book was translated in 1934).

The reasons for the crisis and depression were to be sought in the deep economic and political disequilibria that accelerated after WWI and the peace treaties, something which, incidentally, most Bulgarian economists, who were actively involved in the country's political life, never stopped repeating. Alexander Tsankov, for instance, considered that the flows of savings, investments and gold had changed, thus affecting global balances, while industry had undergone a profound technological transformation essentially due to the massive use of machines (Tsankov, 1929; 1932). In his view,

> "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 far as Bulgaria was concerned, Tsankov realised that small and peripheral countries were dependent on the 'centre', and in his recollections, he says: "Regrettably, small countries and in particular the countries on the Balkans have always been minor

8 See Bobchev (1933a) and Babulescu (2003).

pawns, with which the big countries have balanced their accounts." (Tsankov 1999 [1953], 283) Later, in his memoirs written in Argentina, Tsankov would point 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, 1999 [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 tighten 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 the state is interfering more and more by way of control and governance in all areas of life, especially in economic and social life . . . From now on the state will interfere. This is perhaps the new that we see coming." (Tsankov, 1932, 16, 18)

In the keynote speech of the Democratic Alliance (*Democraticheski sgovor*) movement, held on 12th June 1932, Tsankov demonstrated some of his old principles from the historical school by saying that despite the positive elements that he found in 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 will 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 for human progress . . . to encourage reconciliation between workers and capitalists through the mediation of the state." (Tsankov, in Poppetrov, 2009, 528-536)

The 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* concerning the setting of the level of the *lev* and the rate of money supply coverage. There was a wide consensus among Bulgarian economists about the need to retain the old *lev* parity despite the devaluation of the main currencies and their neighbours' currencies. Indeed, over time, pro-devaluation ideas did sneak in, but this happened 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 German zone.

Analysing the devaluations of the pound sterling and the Deutschmark, Alexander Tsankov saw them as the 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 reparations from Germany, France hoarded reserves, which were once again recycled to Germany in the form of short-term loans via British banks. And as these funds were invested in long-term projects in Germany, the British banks could not claim back their receivables from Germany when confidence declined. This undermined the pound sterling. Although gold was a significant factor of economic development, it was still a "fetish", and its uneven distribution among individual countries was noxious. The fragile chain of monetary payments between countries due to the crisis, as exposed by Tsankov, was close to the schemes proposed at the same period and later by different western authors (such as Delaisi, 1933, Baudin, 1937, among many others).

The leading Bulgarian economists concurred on the benefits and advantages of the gold standard internationally and at home, and it continued even after the devaluation of the French franc in 1936 (as mentioned above, Bulgaria practically never devaluated).[9] In parallel with these positions, Bulgarian economists expressed support for 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).[10] On this point, Lyubomir Yankov for instance was especially clear. He was against a possible devaluation of the franc, and this being already a fact (according to his calculations, the devaluation was about 25-35%), he regarded this as a disaster. 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 illusionary the advantages of such a monetary system could be." (380);

9 Germany and Hungary also never devaluated officially. Although Romania also kept the exchange rate parity, in 1936 it devaluated de facto when revaluating its 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 suggest this occurred when the exchange rate control was introduced, usually in 1931/32; the gold exchange standard was de facto abandoned, because the free movement of gold was limited (Wandschneider, 2006).

10 He developed his ideas in French in Mollof (1934).

> "Raymond Poincaré's franc collapsed as a result of disrupted state finances" (494). "National currency devaluation always brings with itself relief to debtors and loss to depositors and creditors." (Yankov, 1936, 505)

A similar conservative attitude to devaluation was held by another economist, Assen Ivanov, BNB Governor, who published two articles placing foremost importance on the key role of savings to exit a crisis (Ivanov, 1933, 1936). For him:

> "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 described the technical problems of losses resulting from devaluation (including the role of foreign trade, which in modern terms would be explained by "the theorem of critical elasticities"), but he was also definitely in favour of encouraging savings rather than demand. The same conservative view was held by Assen Cholakov, who believed the salvation of Bulgaria lay 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, and especially for their exports, they are nevertheless in a position to keep their system by means of protection premium on exports and boost the development of their economy"; "Fluctuations 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 were shy attempts to look upon devaluation in a positive way, and attempts to study and spread the idea of the "guided currency [*upravliavana moneta*]". In this respect, worthy of mention are young Assen Hristophorov's comments in one of his first articles after his stay in London, when he described the consequences of the devaluation of the pound sterling and the dollar:

> "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 was directly influenced by the numerous publications on this subject, including by Keynes[11]. It is perhaps interesting to note that two years later, after the devaluation of the franc, Hristophorov (1937, 234) clearly mentioned in one of his articles the rise in prices in France (22%, which was higher than in other countries), devaluation already being a fact. There again, and in his next article about the global conjuncture, Hristophorov explicitly underlined the fast development of virtually all countries after devaluations, implicitly stating his view that gold is like "chains" to economic development (similarly to Keynes' and Eichengreen's interpretations).

Zhelyo Burilkov, a BNB deputy governor, made an exhaustive and particularly extensive analysis of the new theories and techniques of the Central Bank, where discretionary monetary policy was given support, albeit implicitly (Burilkov, 1934). It is interesting that Burilkov sided with the economists who believed that monetary policy was based on science and theory, and not only art, practice and experience. In his analysis, Burilkov presents the ideas of Hawtrey, Keynes, Wicksell, Cassel and Fisher; Keynes is not clearly distinguished from the rest, and the LLR function is not explicitly mentioned (the article speaks about the "bank of banks") although some of Bagehot's views are introduced.[12]

If we summarise the arguments that Bulgarian scholars upheld against devaluation and deflation, and in support of exchange control, they could be described as follows:

First, as mentioned earlier, Bulgaria was a debtor country which considered debt service a key priority. In fact, Bulgaria was an extremely diligent payer who was anxious to preserve its reputation through debt service. Due to its political isolation after WWI, however, its endeavours to be a good payer were not recognised and it had to shoulder liabilities with almost no relief (Ivanov, 2001, 2004). 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,

11 For more information, see Rist (1933), Baudin (1937).

12 In a very good book, Dimitar Mollof (1934) proposed an interpretation of the 1931 British monetary crisis, in which he emphasized the harmful role of monetary sterilization (i.e. the confusion of real saving with pure monetary credit) and criticized the theory of the 'managed currency'. In the case of Bulgaria, he showed the counterproductive role of exchange control measures for the stability of the Bulgarian currency (he felt the devaluation of the *lev* was unavoidable and the solution was to devalue and then to tie the *lev* to a pure and internationally recognized gold standard).

2001, 135). In terms of structure, Bulgaria's debt was denominated in gold backed *lev* and was mostly owed to non-devaluing countries. 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 tied to gold "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 between 1918 and 1922: 16.3 percent of budget expenditure. 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 percent of budget expenditure; there was no great BNB asset loss since a comparably small amount of assets was denominated in sterling. Summarising the opinions of many economists at that time, a hypothetical devaluation would certainly increase the national debt burden and any possible advantages would be marginal (Sarailiev, 1937, 27).

Second, the balance of payment constraints were particularly tight, and not only with regard to foreign debt service. The prices of agricultural products, which accounted for the major part of Bulgarian exports, fell sharply on international markets and aggravated trading terms. The September 1932 Stresa Conference focusing on possible assistance to southern European countries (a major part of the so-called 'agrarian bloc') noted that the price drop reached 70 percent (Bonnet, 1933, 21). A fund concentrating revenue from the sale of agricultural products to developed countries was proposed to serve as a partial debt service (but it was vetoed by the United Kingdom).

Third, systematic exchange control could be interpreted as a defence against restrictions introduced by Bulgaria's trading partners and their abandonment of the gold parity. The drop in farming prices was combined with a number of restrictions on the import of agrarian products from Germany and France with a view to protect indigenous farmers through economic and political means (Raupach, 1969). Turkey, an important Bulgarian trading partner, also introduced some restrictions on Bulgarian imports. In April 1932, the drachma joined the pro devaluation club members and Bulgaria lost its competitive and long-standing position 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. In addition to this global imbalance, Bulgarian economists provided a list of long-term domestic factors like the purge and the confiscation of capital claimed to be illegally accumulated during the Wars, as well as political instability, which certainly contributed to the decrease in Bulgaria's capital accumulation and foreign reserves.

Also of interest during this period were the discussions on the banking dimension of the crisis. It is common knowledge that over the period 1931-1935, the number of banks declined from 131 to 98 due to failures and consolidation (Kemilev, 1936). According to Kiril Kossev's recent study (2008), the banking crisis in Bulgaria was one of the severest: over the sole 1929-1932 period, bank deposits decreased by 50%. Laying the foundations of banking supervision with the establishment of the Bankers Board (*Bankerski savet*) and the introduction of a range of accounting rules resulted from the recognition of the need for a regulated financial system and of the weaknesses of the free market. All these measures could be interpreted as manifestations of a general trend towards greater state interference in the economy and more active monetary policy.

As indicated previously, the last phase of the Great Depression was the disintegration of the world economy into several blocs with Bulgaria choosing the area of influence administered by Germany. Exchange control, and later on the clearing agreements became a key monetary instrument in fighting deflation and the crisis. A detailed account of the exchange control and clearings in historical perspective is given in Nenovsky and Dimitrova (2007).

6. The Bulgarian Marxists: Interpretations of the Crisis

One of the most diligent group of Bulgarian economists among the five mentioned, the Marxist group (*E*), was extremely active during this period, providing one of the main examples of Bulgarian theoretical interpretation of the Great Depression. This group deserves to be examined in some detail. We shall briefly discuss the *Marxist structural reading* of depression. This group displays some interesting and curious features, which account for much of the specificity of the Bulgarian interpretation of the depression of that period.

It had an advantage over all the other groups in claiming that the structural change of capitalism preceded the Depression, which allowed it to "scoff" at the evolution of the other economists and find evidence to support its projections. To Bulgarian Marxists, the crisis that they witnessed was a crisis of the capitalist system. Thus, according to Sava Ganovsky (Trudin) the bourgeois economists

> "cannot 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:

> "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, based on the deep contradiction between the social nature of production and the private form of appropriation of goods (private property). Marxists believe that this contradiction is manifested at the concrete level within multiple new contradictions between overproduction and underconsumption by the working class, a decline in the rate of profit as a result of an increase in organic composition of capital, a range of reproduction disproportions (between I and II sub-divisions), anarchy, etc. This can ultimately be expressed in sociological terms as a struggle between workers and capitalists.

To put it differently (in my own words), the Marxist theory of crises, closely related to the cyclic nature of capitalist production, is a theory about the concurrent existence of underconsumption (of the working class) on the one hand, and overproduction and overinvestment in the first tier industries (means of production) on the other. The novel aspect in Marx's theory comes from linking the above-mentioned disproportions with the mechanism of added value and profit, which explain these disproportions. Added value and profit lead directly to a sociological interpretation of the crisis, i.e. to an interpretation in terms of conflicts of interests and class struggle. Following this line of reasoning, as Marx believes (simplified again, of course), 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, the Marxist theory claims that crises are mostly the result of economic disproportions, some of the disproportions explored being between production and consumption, and others between investment and consumption, while others still pertain to the various phases of the investment process, etc. The impulse of crises is not given a sociological interpretation, whether in monetary, credit or purely technological terms.

Marx's concept was subsequently developed in the direction of the monopolistic and imperialistic phases of capitalism, at which point (here the Bulgarian economists closely follow Lenin) a *general* and final crisis of capitalism is observed. State interference and the fight for colonies are seen as a natural extension of the economic laws of capitalism, as attempts to save the capitalist class and its level of profit (added value). It is no accident that 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, that its society was sufficiently polarised between rich and poor, and that no middle class or middle road existed.

Ivan Stefanov (pseudonym V. Borisov), for instance, presented a number of in-depth publications on each of these objectives. He statistically illustrated the existence of monopolies in the country and their coalescence with the state, and criticised the outlooks of other Bulgarian economists who argued that Bulgaria was not sufficiently industrialised, or that the monopolies (or "cartels" to use the fashionable language of the time) were a positive phenomenon transforming society onto a scheduled track without the need for social revolutions (Borisov, 1932/1933a). In other articles, the same author went on 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 financial capital in the village. This meant that the peasants, because of their poverty, characteristics and interests had become closer to workers, i.e. they had become their class allies (Borisov, 1932). It should be mentioned that the agrarian nature of the Bulgarian economy had long been the focus of Bulgarian Marxists, even before the Depression: differentiation were analysed on many occasions in various party documents, first by Dimitar Blagoev and later on by Georgi Dimitrov, with the idea of a "Common unified front against the advance of capital" launched by Georgi Dimitrov. This paper also states (in 1923) that "capitalism today is going through the last stage of its development, i.e. imperialism, the dominance of financial capital" (Dimitrov, 1986 [1923], 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, 1931/1932) and the interesting issue of the debtors' structure (Tersiev, 1932/1933). V. Tersiev makes an original statistical analysis of the debtors' structure during a discussion of debt remission. He presents and analyses the different reform proposals of (i) Dimitar Mishaikov: relieving the large and viable debtors through an external loan; (ii) Petko Stoyanov: compensating the price decrease only for those who have entered into loan agreements for the purpose of production; and (iii) Slavcho Zagorov: using a sinking fund related to the state budget; and shows that these reforms serve 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." (Tersiev, 1931/1932, 952)

Marxist representatives were particularly critical of the models of planned economy, propagandized by some economists at that time (as mentioned previously). Especially telling in this respect are their reactions to Werner Sombart's visit, which they used as an occasion to write sharp and polemic, yet generally serious articles. Sava Ganovsky (pseudonym Trudin) and Ivan Stefanov (pseudonym V. Borisov) offer interesting critiques of Sombart's ideas, the former more from a philosophical view, while the second in relation to crises and the idea of a planned economy. Ganovsky attacks the Bulgarian scholars (mainly the neo-Kantian philosopher Dimitar Mihalchev) and the Bulgarian bourgeoisie in general. In Ganovsky'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 historical laws, 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 one discussing the future of Sombart's 'capitalism' (Borisov, 1932/1933b), and the second one about planned economy (Borisov, 1932/1933a), gives the main principles of a Marxist interpretation of crisis and the ways out of it. 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 the manifestation of an already familiar essential contradiction in capitalism. Erroneous too is the model to exit the crisis advanced by the German scholar, namely through reformism, state intervention and a planned social 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" (Borisov, 1932/1933b, 350).

Unlike the economists from other schools who examine a structural model with the state as 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 a planned economy and the models applied in Germany and Italy According to Stefanov, a "capitalist planned economy" is a "slogan to save decayed capitalism"; it is actually "just another edition of the long-bankrupt Katheder-Socialism". This model is inapplicable and harmful as it presumes that through reforms in income distribution, 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 in his great speech of 1932, published by Jacques Nathan under the pseudonym B. Kamenov.

The outcome is clear: the crisis will lead to a socialist revolution like the one in Russia and the Bolshevik model of planned economy will be implemented, because the USSR was the only country unaffected by the depression. This is well generalised in the statement of Russian diplomat Maxim Litvinov at the London monetary conference in 1933, summarised by Nikola Stoyanov (1933, 622), who observes that the audience met the statement with laughter: "Litvinov 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 already existed before the Depression. 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 what is required is an alliance between workers and peasants and the application of Lenin's principles. "Leninism is nothing but Marxism in the area of socialist revolution, the area of struggle to bring socialism into being." (Kolarov, 1926, 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 Lumpenproletariat over financial capital. Fascism is the authority of financial capital itself." (Dimitrov, 1986 [1935], 252)

Finally, it is worth mentioning the interpretations of interdisciplinary economist Ivan Kinkel, who built a modified Marxian, historical and sociological approach to the crisis, and an original theory on the cyclical cultural development of economic life (for details, see Nenovsky, 2011a). In several articles published in Archives of Economic and Social Policy, and often under pseudonyms (Fridung, 1934, Mladenov, 1935, Kinkel, 1937), Kinkel argues that the crisis is structural by nature. Therefore, it cannot be addressed with the tools of a directed and planned economy, or by autarky within the capitalist system. Only a genuine socialist revolution is appropriate, but definitely not of the Bolshevik type.

Concluding Remarks

This short overview of the ideas, theories and discussions among Bulgarian scholars from the time of the Great Crisis allows us to think in at least several directions.

First, the analyses of crises reflected the range of issues affecting the country's peripheral economy, the agrarian prevalence and to some extent that of the food, wine and tobacco industries, the weak capitalisation of the agrarian sector and the underdevelopment of heavy industry (machines in particular). This explains the paramount importance of the issues of falling prices, price gap, and debts of Bulgarian peasants, artisans, tradesmen, etc. Because of this, significance was attached to building and protecting the indigenous industry, which largely conditioned the early emergence of elements of economic nationalism, protectionism, exchange control and the increasing role of the state.

Second, an important point, which was covered by all Bulgarian economists, was the role of the wars, the onerous reparations and the overall vulnerability of the Bulgarian economy from adverse external shocks. The external debts and the country's dependence on foreign economy and foreign capitals ("balance of payments constraints") were seen as major factors for the existence of external and domestic political factors explaining the crisis of that period.

Third, in the monetary sphere, the Bulgarian economists remained orthodox supporters of the gold standard and balanced public finances. Bulgaria continued to maintain gold coverage of the *lev* even after the franc devaluation in 1936. To a large degree, this was due to the country owing large amounts in reparations and for many new loans, and to purely political considerations of losing the vast majority of voters in the event of devaluation. The difficulties accompanying devaluation and deflation produced a third alternative: that of joining Germany's exchange control zone and clearing system, the only one possible.

Fourth, gradually realising that the crisis was neither cyclic nor arising from conjuncture, 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 the so-called planned or directed social economy, where the state was given an active role as a social arbitrator and discretionary regulator of the economic cycle.

Fifth, as the view that the crisis was changing capitalism fundamentally gained ground, various diverging opinions formed within the new interpretation, mainly divided between 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 existed between the purely economic mechanisms of the above two alternatives, the supporters of the German model viewed themselves as more totalitarian, while those in favour of Keynesian regulation—as more democratic and scientific. In Bulgaria, two variants of planned economy dominated, the German one (which we have examined) and a Marxist variant (not analysed here), whereas the Keynesian ideas of structural changes found their way with much difficulty and emerged only when it became clear that the war would be lost.

The great crisis was a test of the viability of the different theories and their ability to explain, predict and offer economic solutions. It was no accident that the "struggle" on this front of ideas became a major element of the fight between the representatives of different interests, either in terms of class or at national level. Especially aggressive in this respect were the Marxists, to whom the defeat of the "bourgeois" explanations of the crisis and the "reformist" models of planned social economy were a matter of life and death.

And one of the most important characteristics of Bulgarian economic discussion was that the academic fights aimed to attract as many supporters as possible to a given political cause. The Bulgarian economic scholars were for the most part involved in political, government or highly paid private activities; therefore, their policy and their interests could not be isolated from their theoretical analyses. Of course, there were many economists, armchair scholars mainly, who tried to analyse the processes objectively; these were however the exception rather than the rule. The political, practical and purely academic debates were closely interlinked, practically impossible to separate and this particularity gives specific significance to the economic sciences in peripheral Europe in general.

One thing is obvious: in their interpretation of the crisis and their concrete analyses, regardless of their positions and ideological biases, the Bulgarian economists maintained a high level of analysis. A closer look at what was done in the other countries during that period shows that the Bulgarian economists were aware of the seriousness of theoretical discussions and the need for a professional attitude to research.

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