



DISCUSSION PAPERS

DP/79/2009

A stylized illustration of a man wearing a hat and a long coat, driving a horse-drawn carriage. The scene is set against a background of intricate, repeating geometric patterns in shades of blue, yellow, and orange.

The Great Depression in the Eyes of Bulgaria's Inter-war Economists

Stefan Kolev

A detailed illustration of the Bulgarian National Bank building, featuring classical architectural elements like columns and a pediment. The building is set against a background of repeating patterns, including a grid of circles and the number '50'.

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The Great Depression in the Eyes of Bulgaria's Inter-war Economists

(How History of Economic Thought Could Matter for Today's Policy Advice)

Stefan Kolev

December 2009

DISCUSSION PAPERS

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ISBN: 978-954-8579-34-6

Printed in the BNB Printing Centre.

Views expressed in materials are those of the authors and do not necessarily reflect BNB policy.

Elements of the 1999 banknote with a nominal value of 50 leva are used in cover design.

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**Publication recommended by the Bulgarian National Bank
Editorial Board of Finance and Banking History**

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SUMMARY. The current paper is an attempt to reconstruct the economic policy debates in Bulgaria around the Great Depression in the 1930s. The goal is twofold. Firstly, it is of interest to track down the development of Bulgarian economic thought in the inter-war period and to analyse its intellectual relationships to the evolution of European (especially German-language) political economy. Secondly, due to some significant analogies between the situation in the surveyed period and the current crisis, it seems possible to tentatively draw conclusions from the economists' debates then as a contribution to crisis management and post-crisis development of Bulgaria today.

The paper is only secondarily interested in the quantitative economic history of the 1930s; instead, the primary objective is to show that history of economic thought as a discipline can give qualitative indications how past theoretical discourse can be inspiring both for conducting economic policy and for avoiding past mistakes.

Keywords: Great Depression, Bulgaria, economic policy, history of economic thought

Special gratitude is to be expressed to Dr M. Nenova for enabling me to spend the time at BNB as a visiting researcher productively, to Prof N. Nenovsky for the many inspiring discussions over the last two years, and last but not least to the BNB librarians who were of extreme help to me during the months spent mostly in the Bank's library.

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1. Introduction

The Great Depression, beginning in late 1929 and persisting well into the 1930s, has always been a focal point for researchers interested both in economic history and in history of economic thought. Not only was this period a time-span of major economic, political and social distress. What might be perceived as equally important is the fact that at that moment economics as a branch of social science faced substantial changes, partially due to the severe criticism which was addressed to it from the public. According to public opinion, it had failed in preventing the Depression and thus was largely perceived, just as during the 19th century, as the dismal science which is of no real use for the progress of society.¹

Crises are, however, often a culmination and a new beginning at the same time.² This is true for economic, as well as for intellectual crises, and the Great Depression was certainly both. At a time of severe disturbances, social sciences and economics in particular have achieved substantial innovations in their development. Adam Smith and the beginning of the Industrial Revolution, David Ricardo and the Napoleonic wars or Karl Marx and the bourgeois revolutions of 1848 are good examples supporting this hypothesis. The time of the Great Depression and its aftermath constitute also such a time. The coming up of Keynesian macro-economics is probably the most lasting remainder of these “years of high theory”, as they are called.

But this is by far not all. The debates around this “great crisis of capitalism” are not only interesting in a purely scientific respect, but also as a prominent example for (some) economists being willing to exit the ivory tower of academia and generate policy advice, both for politicians and the general public. Such discussions in the Western countries have been well studied by historians of economic thought.³ Countries like Bulgaria, however, which do not have a long tradition in economic reasoning and are besides small economies, have up to now not been in the center of interest. The current paper attempts to fill a part of this gap.

Bulgarian economists in the inter-war period are generally not perceived as being a part of a genuinely own tradition in economics, unlike e.g. their

¹ For an analysis of the deficiencies and “intransparency” of the German-language debate see Hagemann, H. (2009).

² See Неновски, H. (2007), p. 13.

³ For the exposure of Austrian economists in popular newspapers in Vienna during the Depression see Klausinger, H. (2005).

Polish or Hungarian colleagues of that time.⁴ This leads to the common reproach in the few Bulgarian publications covering their work that they are “epigones” of foreign intellectual developments.⁵ The current article cannot deal with this accusation in detail since it would require a profound comparative analysis of the significant volume of economic publications in the time until 1944. What will, however, be an important thesis in the paper is that the (semi)academic discussions in the three selected journals of that period do not substantially differ in quality and sophistication from the debates in the Western world. Of course, the influence of the Youngest German Historical School, of Marxist economics or (to a smaller extent) of the Austrian School of Economics can be tracked down and is an important feature of the discourse among Bulgarian economists. This, however, according to the author is less than a sign of being “epigones” of foreign thinkers. Instead, this fact can be interpreted as a laudable willingness of Bulgarians to be in line with the Western debates about which they are obviously well informed. The reproach of “provincialism” is thus turned to the opposite: the economic community in Bulgaria at that time was at least as open and probably more in line with the Western discourse than it seems to be the case today.⁶

The structure of the paper is to be briefly outlined here. The exposition will begin with some brief stylized facts about the situation in Bulgaria during the late 1920s and early 1930s, showing what the major symptoms of the Depression were in the specific Bulgarian context. In a next step, some initial analogies from this economic-historical setting will be drawn with respect to the comparability of the country situation then and now. Then the core of the paper will begin with its two layers. First, the general economic policy debate will be presented, a debate more focused on the *structural long-term* aspects of economic policy and the role of government in them. In a second step, the *anti-cyclical short-term* proposals will be analyzed. One of the major theses of the paper will be that although a separability of the two layers seems desirable, it is often difficult to attain since the Bulgarian economists in their majority see the cyclical phenomena as densely intertwined with the overall structural problems of the economy.

A brief remark on the methodology of the study might be in place now. In the relatively short period of the stay at the BNB the author was able to analyze three of the major economic periodicals in Bulgaria at the time

⁴ For an interesting contribution on the early Bulgarian tradition in History of Economic Thought see Юрданов, Ю. (1935).

⁵ See Аврамов, Р. (2007), pp. 348–392.

⁶ A prominent example for this “openness”-hypothesis are the extensive publications of Prof. Dr. Georgi Swrakoff in the 1930s and 1940s in first-rate German economic journals where he is a welcome reviewer of major Western thinkers, e.g. of a pioneering book of the founding father of German ordoliberalism, Walter Eucken, see *i.a.* Swrakoff, G. (1939).

of the Depression. These are *Списание на Българското Икономическо Дружество* (Journal of the Bulgarian Economic Association, JBEA), *Стопанска мисъл* (Economic Thought, ET)⁷ and *Архив на стопанската и социална политика* (Archive for Economic and Social Policy, AESP). Of course this selection is far from complete, but the time restraint only allowed for this. All three journals were analyzed beginning with the issues of late 1929 and continuing well into the 1930s. The three were selected after a careful research of previously conducted analyses of the period⁸ in order to allow for some representativity (JBEA being the most official publication of the community) and simultaneously to depict some heterogeneity of the economists' profession in Bulgaria at that time (ET being a more theoretical series than JBEA, and AESP being affiliated to social-democrat doctrines).

Overall, this study suggests that today's economic policy advisors in Bulgaria may well learn a lot from their predecessors' experience in the 1930s. Since both the situation of the Bulgarian economy and the nature of the global crisis then and now are not dramatically different, it might indeed prove helpful to take a detailed look at the debates back in the 1930s. Of course history never repeats itself, but it would be good not to repeat the mistakes of the past. For this reason the economic profession might itself be well advised to spend more time on the history of its own thought, something which is unfortunately more and more neglected in the teaching of today's mainstream economics at modern universities. The current paper may be perceived as a marginal contribution to the contrary.

2. Description of the Bulgarian Great Depression 1930–1935

This paper is focused on history of economic thought, not on economic history, so this part of it should remain brief. In the last years, there have been some publications trying to reconstruct the data regarding the economic development of Bulgaria in this period,⁹ so a brief sketch based on the cycle reviews in the three journals should suffice here.

The Bulgarian crisis¹⁰ started somewhat later than its global counterpart, namely in the second half of 1930, and the initial shock did not come from the bubble on Wall Street.¹¹ It was the bursting of another bubble that af-

⁷ Since from the publications themselves it does not become absolutely clear when the first volumes of this journal appeared (late 1929 or early 1930), the author decided to quote the first collection of papers as 1930, vol. 1.

⁸ The most encompassing œuvre of the Communist period probably is the two-volume edition of *Натан, Ж., К. Григоров, Л. Беров, Ст. Мечев, Т. Трендафилов* (1973).

⁹ See most notably the works of Dr. Roumen Avramov and Dr. Martin Ivanov.

¹⁰ For an interesting quantitative and graphical analysis of the Bulgarian development prior to the crisis see *Михайлов, Н.* (1930a), pp. 50–55.

¹¹ For the extremely rapid spread of the initially purely financial crisis from the USA to Europe see

affected the economy in the whole of South-Eastern Europe much more severely and directly: the end of the chaos on the agricultural market.¹² Since Bulgarian economy of that time was primarily agriculture-oriented (some estimates suggest that around 80 per cent of the population were engaged in this sector)¹³, the rapid and sharp plummeting of the prices, e.g. wheat prices, had a very deep impact on the country.¹⁴ Bulgaria's agriculture was, according to analyses of economists of that time, highly inefficient when compared to the productivity of other European and especially to North-American farmers.¹⁵

The problem became even more serious due to the credit boom in the economy between 1927 and 1929¹⁶ which directly preceded the slump.¹⁷ The credit expansion was generated by the exterior influx of capital, both from the stabilization credits to government and from private, mostly American short-term¹⁸ funds.¹⁹ In this boom many farmers were willing to accept credits from financial institutions which turned out to be only payable if the high prices for their products as before the slump would persist.²⁰ The ensuing farmers' debt crisis is a characteristic and very often pronounced feature both of the economists' and the politicians' debate about the crisis.²¹ The stability of the political system, weak as it was in that period, was additionally endangered by this phenomenon.²²

A feature which Bulgaria has in common with other economies in the Depression is the extremely steep drop in the general price level, both wholesale and retail. Although it was the time when price indices were just being conceived and implemented,²³ there is overwhelming evidence in the reviews in JBEA that for the first years of the crisis prices went down by about

Ботушаров, Д. (1930). For an analysis of the price development before the Depression see *Ляпчев, А.* (1932), pp. 531–533.

¹² For some numbers on this agricultural bubble in the pre-crisis years see *Ляпчев, А.* (1930), p. 497 and p. 510. For an early analysis of the spread of the impulse after the burst of the bubble see *Кръстев, С.* (1930б), pp. 101–103. A retrospective analysis in the bubble with time-series can be found in *Каменаров, Н.* (1933), pp. 24–25.

¹³ See *Бобчев, К.* (1931б), pp. 471–472.

¹⁴ See e.g. *Цанков, Ал.* (1932), pp. 10–12.

¹⁵ See *Бобчев, К.* (1931б), p. 474.

¹⁶ For an overview of the development of the credit system in Bulgaria before the crisis, including some time series, see *Кръстев, С.* (1930а).

¹⁷ For the ensuing credit crunch and rise of credit interest see *Чакалов, Ас.* (1930), p. 223.

¹⁸ For the primarily short-term character see *Чакалов, Ас.* (1934б), p. 201.

¹⁹ For the first signs of withdrawal of such funds from Bulgaria as early as the beginning of 1930 see *Чакалов, Ас.* (1930), p. 222.

²⁰ See *Загоров, Сл.* (1933а) as well as *Чолаков, Ст.* (1932), pp. 142–143.

²¹ See e.g. the discussion in *Цанков, Ал.* (1932), pp. 10–12.

²² For an overview of the political dynamics in Bulgaria in the early 1930s, see *Джигров, П.* (1930), pp. 66–71.

²³ For the state of their implementation in the Bulgarian context see *Загоров, Сл.* (1935).

40 per cent, a figure which is even higher than those in Western European economies.²⁴ This severe deflation was, together with high unemployment figures, certainly one of the most painful symptoms of the overall slump and phased out somewhat in the mid-1930s.²⁵

The outcome of these economic difficulties was a strong drop in both exports and imports.²⁶ The current account, however, was not in a particular disequilibrium, probably also due to the so called “foreign exchange monopoly” which was institutionalized at the BNB and imposed drastic measures on financing of imports. The reasoning of the Bulgarian economists about this arrangement will be found below.

An accompanying phenomenon was also the major distress in the financial sector of the economy. Various banks went bankrupt; many others were compelled to merge. Since the capital market was hardly developed at that time,²⁷ difficulties for banks, being thus the only source of finance, automatically lead to further repercussions on the real sector.²⁸

Interestingly, the Depression continued longer in the Bulgarian context as compared to the Western economies. Unlike the saying of modern textbooks on economic history which very often mark the end of the crisis with 1933²⁹, Bulgarian problems persisted well into 1934 and ended as late as 1935.³⁰

This was again due to the predominant agricultural sector which saw only a slow recovery from the shock and was on top plagued by some bad harvests in this period.

²⁴ For some indications of the early sharp slump in prices see *Чакалов, Ас.* (1930), pp. 223–224. An international comparison of the price development until 1933 can be found in United Nations (1933). Highly valuable time-series for different countries, also separated according to their currency arrangement, can be found in *Христофоров, Ас.* (1936a), p. 177 (wholesale price indices), p. 179 (retail price indices) and p. 181 (wages).

²⁵ For the only slight improvements in the course of 1935 see *Чакалов, Ас.* (1935b), pp. 436–441.

²⁶ The degree of openness of the Bulgarian economy is discussed in the analysed publications. Interestingly, some state that it belongs to the European countries with a relatively low proportion of exports and imports to national income (see also footnote 33). The openness with respect to capital flows is significantly higher; see *Бобчев, К.* (1932b), pp. 665–666. For an estimate that the Bulgarian foreign trade dropped in the first three years of the crisis by more than 50 per cent, see *Тогоров, Д.* (1933), p. 16.

²⁷ See *Мишайков, Д.* (1934), pp. 638–641.

²⁸ For an outstandingly detailed analysis of the Bulgarian banking system during the crisis see *Кемилев, Ас.* (1936).

²⁹ For a similar assessment of a contemporary Bulgarian economist see *Христофоров, Ас.* (1936a), pp. 175–176.

³⁰ For a contemporary judgement that the year 1935 is the turning point for Bulgaria’s crisis see *Христофоров, Ас.* (1936b), p. 237, as well as *Христофоров, Ас.* (1936b), pp. 437–438.

3. First Analogies between the Great Depression and the Current Situation in Bulgaria

Before turning to the scientific debate in the 1930s, some striking similarities between the description of the Bulgarian crisis then and now can be outlined here. These can be perceived by the reader as a first strong claim that the debate reconstruction might also be seen as at least partially applicable to the current difficulties.

The first feature is a mass-psychological one and is thus difficult to verify but seems nevertheless hardly negligible. In the 1920s and 1930s the public and the economics profession shared one opinion of particular interest: the thesis of a perennial and not only cyclical crisis. That is to say that the Depression after 1929 is not to be seen as a purely isolated slump, but more in the broader perspective of a crisis which started right after the Balkan wars 1912–1913.³¹ Of course, the severity of the Depression was different from the preceding periods, and of course the period 1912–1929 was not uniformly bleak, i.e. there were some sub-periods where a temporary prosperity could be felt, as in the credit boom of 1927–1929. Overall, from a psychological perspective, the Depression seemed as a culmination point of something lasting for more than 15 years.

The analogy to the current Bulgarian public opinion is evident. The 20 years between 1989 and 2009 have been a period of transition, including permanent transformation and also distress for many citizens. Of course, it cannot be denied that the years directly before the 2009 slump have been objectively years of stable macroeconomic growth in many indicators. As people seem, however, to be lagging the realization of such a process, there are large layers of the population who still live a life characterized by a subjective opinion of crisis. The credit boom of the recent years and the inflow of Western FDI have certainly strongly improved the situation. But even in prosperous Sofia the saying “we have been in a crisis for 20 years, so we are not afraid of some Western financial crisis” can often be heard these days.

The second analogy is concerns the setting of Bulgarian economy in the global context then and now. The first wave of globalization, as economic historians agree, characterized the world before the outbreak of the Great War. After it, in the 1920s, there were significant efforts to overcome the war-induced obstacles and to come back to global economic integration. The comeback of the Gold Standard in many countries during the 1920s was probably the most visible sign of this development. So the period before

³¹ A prominent proponent of this thesis is a former Prime Minister – Professor Alexander Zankoff, see Цанков, А. (1932). This is also shared by social-democratic theorists, see e.g. Николов, Д. (1934), p. 25.

1929 can be seen as a time of increasing international interdependence.³² The same is the picture of today's Bulgaria in the current second wave of globalization. In both time-spans Bulgaria can be classified as a small open economy, strongly intertwined with the exterior world especially by capital flows.³³ Thus Bulgaria is strongly susceptible in both periods to external shocks on the global markets, be they financial or real sector shocks. Moreover, its characterization as a small economy imposes a strong constraint on the quantitative impacts which its own economic policy can generate in such a setting. This will be further discussed below.

A third striking similarity is the currency arrangement which frames the economy in the 1920s and today. In 1928, after many preceding steps, the lev was eventually fixed to a gold parity and a Gold-Exchange Standard was introduced by law.³⁴ Thus the monetary circulation was guaranteed not only by the gold stock of the BNB, but also by the foreign currency reserves in the Bank of gold-covered currencies (which were the predominant ones before 1929). This setting strongly reminds of the Currency Board implemented in Bulgaria 1997. Both arrangements pose a specific constraint on Bulgarian monetary policy which is not as free as it would be in a purely fiat money standard.

A fourth characteristic which the crises then and now have in common is the dynamics of the pre-crisis period. As it was briefly mentioned in the preceding chapter, the period before 1929 can be described as a phase of credit expansion or even credit boom. This is true both in Bulgarian and in international context. The Western European banking system was flooded by easy money coming mostly from the United States and this was then forwarded to some more peripheral economies like Bulgaria. The analogy to the period before 2007–2008 can hardly be overlooked. In this period two (related) sources of easy money were present: the policy of the FED, ECB & Co., as well as the huge amounts of FDI flowing into Bulgarian economy. Although it is true that the Austrian theory of the business cycle does not obligatorily belong to the common explanations of the crisis within the economic profession in Bulgaria at that time,³⁵ the fact of the preceding credit boom

³² See e.g. Михайлов, Н. (19326), pp. 458–459.

³³ I agree with Dr. Roumen Avramov's remark at the presentation of a draft of this paper at the BNB that trade was not a strong channel of integration during the 1920s and thus Bulgaria was a relatively closed economy if judged by its trade flows (see also footnote 26). Migration as the third channel of integration is certainly also present, but both in the early 1930s and today the big waves of emigration belong to the past, émigrés' numbers being stagnant or declining, see Илиев, Ив. (1935). For an assessment of the role of migration in alleviating economic crises see Бурилков, Ж. (19356), p. 602.

³⁴ For the distinction between the „classical“ gold standard and the gold-exchange standard in Bulgaria and an evaluation of the latter see Стоянов, П. (1930), pp. 21–23. Another critical assessment, as a response to Стоянов, can be found in Каменаров, Н. (1930).

³⁵ One of the mentioning of Ludwig von Mises in the context of his diagnosis of the Depression can

seems (from today's perspective) to be a theoretically interesting feature of the cyclical development in the 1920–1930s and in the 2000s.

So far, some first sketches have been delivered regarding the economic history of this period with a special comparative reference to today's situation. Having done this, now the core of this paper will be presented, focusing on the fascinating debate in the Bulgarian economic community during the 1930s.

4. The Economic Policy Debate of Bulgarian Economists after 1929

The aim of this core chapter is to give a well-structured overview of how Bulgarian economists saw the Great Depression and what their answers were to the challenges of this period. The intention of the author is not to show every detail of the discourse in the journals analyzed, but moreover to reconstruct the main lines of thought which characterize the publications.

What is (from a methodological point of view) characteristic for the debate, is the interception of two layers of argumentation which are nowadays classical for economic policy research, but which were new at the time of the publications. The dominating one is the *structural* level of advice, regarding the long-term oriented policies of the general economic development of Bulgaria, most importantly the attraction and accumulation of (internal and external) capital.³⁶ The second is the more *short-term* oriented layer, concerned with the direct *cyclical* difficulties of the Depression.³⁷ From the point of view of German *ordo-liberalism*, which as a science of economic policy came up precisely in this period, both layers depicted by this school, i.e. the so-called policy of order (*Ordnungspolitik*) and the policy of process (*Ablaufpolitik*) are present in Bulgarian debates. Of course, it is difficult to separate them, especially since for the Youngest Historical School, to which most Bulgarian economists belong as they received education in Germany, the distinction is only of secondary importance.³⁸ Another peculiarity of the debate, which is of significance for the reconstruction pattern and which also probably emanates from the German educational background of most

be found in Бобчев (1933б), pp. 212–213. For Mises' monetary reform proposals, as contrasted to these of Keynes and Cassel, see Стоянов, П. (1930), pp. 25–26. Hayek is only mentioned in a bibliography when his *Prices and Production* appears 1931.

³⁶ See e.g. Цанков, Ал. (1932), pp. 13. On the role of saving for internal capital generation see Иванов, Ал. (1933), p. 10. For a discussion of the role of external capital inflows in the Bulgarian economy see Бурилков, Ж. (1934б).

³⁷ The terms “structural” (*структурен*) and “cyclical” (*конюнктурен*) are widely used, see e.g. Цанков, Ал. (1932), p. 8.

³⁸ For an exception with rather an *ordo-liberal* position of government as setter of rules of the game and not an active player see Мишайков, Д. (1934), p. 641.

Bulgarians at that time, is the tenet that economic policy is not a separated issue from the problems of social policy.

Thus in the following a stress is put on the interdependence of structural and cyclical policy proposals, but nevertheless for the sake of clarity an attempt is made to dissect them. As regards social policy recommendations, which are very common in the texts,³⁹ they will be subsumed in the chapter on structural economic policy, as they are of rather long-term significance and cannot be implemented in time to handle the Depression which was already in process.

4.1. Structural Policy: What is the Long-term Path of Development of Bulgaria?

4.1.1. The Role of Government in Economic Policy

There are of course various economic policy debate issues that can be attributed to the label “structural policy”. One of them, the ever-present and central topic of the general role of government in economic policy can be put forward. A quick comparative view at the German-language debate of that time⁴⁰ shows that exactly in that time of severe crisis in the capitalist order, the question as to what the legitimate mixture of state and market is became even more pressing than it had been in the decade after the War. The answers in Germany are manifold, the upcoming of the Freiburg School of ordo-liberalism being the most lasting result of the debate.

In Bulgaria⁴¹ the question was controversial for one additional country-specific sub-topic. This debate in Western countries is complex itself, but in the Bulgarian context a special attention was drawn to the role of government in a “young economy”.⁴² This was the name which the authors often attached to the problem of a relatively short independent economic development since 1879. Due to this reason, an interesting and sometimes puzzling consensus arises between the two fractions of liberals⁴³ and inter-

³⁹ Alexander Zankoff’s main statement is that the social (and possible political) distress is at least as important as the purely economic disturbances, see *Цанков, Ал.* (1932). For a similar stance, see *Янулов, Ил.* (1933), p. 71–74.

⁴⁰ The author of the current article has conducted a part of his PhD research on this topic.

⁴¹ For an outstanding contribution regarding the compatibility of capitalism and the specificity of Bulgarian development see *Бочев, Ст.* (1931), pp. 69–78.

⁴² See *Бобчев, К.* (1930), pp. 213–214 as well as *Бобчев, К.* (1931b), pp. 484–485. See also *Мишайков, Д.* (1934), p. 619.

⁴³ The term “liberal” is employed in the entire paper in the (classical) European, not in the American sense.

ventionists⁴⁴, the two groups characterizing the whole debate in Bulgaria⁴⁵ (as everywhere else⁴⁶). The line of consent is that even for economists perceived otherwise as liberals, the role of government should be an active one, strongly fostering the development of the often inefficient structures in the country. This means that, unlike the few remaining liberals in Western Europe (who in their majority still believe that government should be no more than a rule-of-law arbiter of the otherwise autonomous private agents), in Bulgaria a call for the strong hand of a true player in the economy can be almost⁴⁷ unanimously heard.⁴⁸

Below this most general line of dispute which can be traced back in almost every year of the journals analyzed, manifold more concrete debates take their course and are often shining back on the role of government-issue.

4.1.2. Free Trade vs. Protectionism

What accompanied Bulgarian politicians and academia from the inception of the Third Bulgarian Kingdom to 1944, was the constant issue about the appropriate foreign trade regime for Bulgaria.⁴⁹ The line of division, separating again interventionists from liberals,⁵⁰ is the separation between the adherents of protectionism and the adherents of free trade.⁵¹ There is some similarity in the chain of argumentation when compared to the previous paragraph when looking at the reasoning of the proponents of liberalism. They often stress that as economists, they cherish the benefits of the international division of labour. However, “free-traderism” of the Manchester school origin seems to them out-of-date. Especially for the context of a relatively under-

⁴⁴ For an explicit mentioning of the two camps and terming them (after Ludwig von Mises) “interventionists” and “liberals” in the debate see Бобчев, К. (1931a), pp. 360-361. See also Калинов, Д. (1935a), p. 65.

⁴⁵ For an interesting exposition of the conflict between liberalism and interventionism in Bulgaria, the obituary of the prominent Bulgarian politician and economist Andrey Lyapcheff might be instructive; see Бобчев, К. (1933B).

⁴⁶ Preliminary results of this paper were presented at a conference on May 20th 2009 by the Ministry of Finance on the occasion of its 130th anniversary. A similarly targeted paper was presented by Professor Michalis Psalidopoulos on the experience of Greece in the Great Depression. Without any coordination in advance between us, Professor Psalidopoulos characterized the two most significant groups in the Greek debate as “liberals” and “interventionists”.

⁴⁷ I thank Dr. Roumen Avramov for his comment at the presentation at the BNB and after reviewing the respective publications agree with him that Stoyan Bocheff must be viewed as a notable exception from this consensus; see Бочев, Ст. (1935) and especially Бочев, Ст. (1931).

⁴⁸ For an enumeration of criteria for such an activist state by the otherwise liberal economist Konstantin Bobtcheff see again Бобчев, К. (1930), pp. 219–220. The stance of former Prime Minister Alexander Zankoff who pessimistically sees interventionism gaining the upper-hand during and after the Depression is also of interest, see Цанков, Ал. (1932), pp. 18–19.

⁴⁹ For a historical exposition of the Bulgarian debate on this issue which “has been a century-long controversy of economic science” see Бобчев, К. (1935), pp. 466–467.

⁵⁰ Alternative labels borrowed from the Viennese economist Othmar Spann are “individualists” vs. “universalists”, see Екимов, Ив. (1932), pp. 638–640.

⁵¹ For a liberal argumentation against the ideal of autarky see e.g. Цанков, Ал. (1932), pp. 4–5.

developed and agrarian country as Bulgaria, they (intuitively) tend to cling to Friedrich List's "nascent industry" argument. Thus liberals and interventionists can be distinguished not so much according to their conclusion, which is that some tariff protection is indispensable.⁵²

Two other principle differences arise, however, which allow for a certain separation of the two "camps". The first is the acceptance of free trade benefits in general and the second is the mode of development which is desirable for the post-crisis development.⁵³ As regards the first, interventionists unlike liberals see in an opening of the economy a potential weakness due to the increased susceptibility to external shocks. As for the second, that period saw the building of commercial blocs (such as the Sterling bloc around the UK) and hence the global multilateral integration (with its peak in 1914) to disintegrate.⁵⁴ Bulgarian economists uniformly realize that the small size of Bulgaria's market makes it absolutely necessary to participate in some form of economic integration.⁵⁵ The division is visible, however, between the large majority who increasingly favoured a bilateral trade adherence to the German bloc via clearing contracts⁵⁶ and those who preferred a multilateral solution.⁵⁷ During the 1930s, the latter became more and more unrealistic due to the pre-war processes in the West.⁵⁸ An additional impediment to multilateral trade flows and in favour of bilateral clearing agreements are the strong exchange controls which are instituted in many countries of that period, including in Bulgaria at BNB⁵⁹ as discussed below.

4.1.3. Free Competition vs. Cartels

A related topic which is not quite as prominent in the discussions but still is worth dissecting, is the internal trade regime, *i.e.* the debate between adherents of free competition and those of cartels and monopolies.⁶⁰ Again, the stylized separation into liberals and interventionists bears some explanatory power. The major line of division is whether competition is to be judged

⁵² For an articulation of this consensus, see *Михаїлов, Н.* (1932b), pp. 443–444.

⁵³ On the second, see *Пеев, Хр.* (1932).

⁵⁴ For an assessment of the dynamics of this development see *e.g.* *Кръстев, С.* (1933), pp. 46–47.

⁵⁵ See *e.g.* *Бобчев, К.* (1931b), p. 489.

⁵⁶ One of the first treaties was signed in June 24th 1932. For an assessment of the integration between Germany and South-East European economies see *Пунеров, Ив.* (1936) or *Тошев, Д.* (1934).

⁵⁷ For an exposition of the specificities of the trade regime for agrarian economies see *Свраков, Г.* (1931).

⁵⁸ For an interesting analysis of the political economy of autarky (with a mentioning of Walter Eucken's seminal article of 1932) and its relation to the arguments for a planned economy, see *Петров, Н.* (1933), pp. 62–65. Another mentioning of the same article of Eucken can be found in *Божинев, С.* (1933), p. 138–139.

⁵⁹ For a discussion of the individual foreign exchange regimes in different countries in the beginning of the 1930s see *Калинов, Д.* (1935b), pp. 278–280.

⁶⁰ According to one participant in the discussion, cartels and trusts have "undoubtedly buried classical liberalism", see *Пеев, Хр.* (1932), p. 630.

in a positive or in a negative manner.⁶¹ A predominant tendency can be discovered in the texts in this respect to speak of (in Marxist language) the problems of “anarchistic character of competition”⁶² which can also be seen as one of the reasons for the Depression.⁶³ A minority is speaking of the great benefits of competition, e.g. regarding the incentives for dynamic economic development. Bulgarian economists spend of course some thoughts on the issue of anti-trust policies and are generally in favour of some intervention of government to curtail monopolies and cartels.⁶⁴ Unlike in upcoming German ordo-liberalism, however, they do not propose this due to a particular cherishing of competition, but rather from the injustice perspective that the “unfairly high prices” imposed by such non-competitive actors are an impingement on the individual customer’s budget. Interestingly, even some argumentation can be traced down which states that cartels can be of use for stabilizing prices especially during such slumps as the Depression.⁶⁵

4.1.4. Market Economy vs. Planned Economy

Collective entities like cartels, thought to the end, tend according to Schumpeter to be a step towards a collectivist or centrally planned economy. Looking at the experience of Soviet Russia, as well as at the fundamental Western discussions of the 1920s and 1930s regarding the possibility and desirability of a planned economy,⁶⁶ Bulgaria’s economists pose the question as to whether “time has come” for a switch from the market to a planned economy.⁶⁷ The issue is strongly related to the Depression, since Soviet Russia obviously (despite mass famine) succeeds in convincing the world that the Great Depression has hardly affected its economy.⁶⁸ Together with the “anarchistic competition” argument stated above, this leads to the question whether planned economy is at least a temporary device in times of crisis. This would mean that in periods characterized by such significant slumps, government is to take the initiative from the privates and thus prevent the chaos of (in Keynes’ words) self-accelerating private investors’ herd behavior to the bottom. However, a consensus emerges in the Bulgarian periodicals (not shared by AESP authors) that the solution cannot be sought in such a

⁶¹ For a balanced analysis of both sides see *Стоянов, К.* (1934), pp. 311–312. For an emphasis on the fight against “unfair” competition and an agenda for competition policy see *Близнаков, Т.* (1936).

⁶² See e.g. *Калинов, А.* (1931), pp. 329–330.

⁶³ See *Калинов, Т.* (1932), p. 25.

⁶⁴ For a discussion of the Bulgarian legislation on cartel and monopoly prices passed in 1931 see *Бобчев, К.* (1932a), pp. 44–45.

⁶⁵ For this argument see *Петров, Н.* (1931), pp. 93–94.

⁶⁶ For an assessment of the first Five-Year-Plan see *Николов, Д.* (1933).

⁶⁷ For a theoretical overview of the different possible sub-types of planned economies see *Бочев, Ст.* (1935).

⁶⁸ For a relatively uncritical assessment of the Soviet development see *Джигров, П.* (1932a).

radical transformation of the economy, neither temporarily nor permanently.⁶⁹ The crucial argument against it that, even if implemented temporarily, it would totally suffocate private activity and thus the economic system would lose its essential features. If a centrally planned economy would be introduced once, according to the Bulgarian authors, a coming back to market principles in better times would hardly be possible.⁷⁰

4.1.5. Agrarian Economy vs. Industrial Economy

But even if a consensus for the market principle is thus present, the question as to which the relevant markets for the country's future economy should be is to be additionally posed. It is not difficult to discern that this issue is the topic of *agrarian vs. industrial economy*. Communist propaganda after 1944 raised one of its major objections against the “bourgeois” economists that they have left the country in the “medieval agricultural structures” and that they have not actively proposed industrialization for Bulgaria.⁷¹ This is to a certain extent true. The economists in the analyzed periodicals would indeed not support an aggressive industrialization of Bulgaria as practiced after 1944.⁷² There seems to be a consensus that the comparative advantage in the 1920s and 1930s is in agricultural production. This, however, does not mean that the economists were pure proponents of the status quo. Instead, in various publications the inefficiency of the current structure of the agricultural sector is heavily criticized.⁷³ In the end, an evolutionary rather than (the later communist) revolutionary path is chosen, where improvement can be reached via voluntary unions like the ones proposed by the cooperative movement,⁷⁴ not by violent nationalization and urbanization.

4.1.6. Economic Policy and Its Relationship to Social Issues

As pointed out above, the debate on structural policy issues is not only a purely economic one. The Bulgarian economists, mostly trained in the tradition of the German Historical School, follow their academic teachers in showing that economics without being embedded in a larger context is not sufficient. This means that when discussing e.g. the role of government in economic policy, not only economic, but also sociological and social policy considerations are to be taken into account.⁷⁵ The economic community

⁶⁹ See Бобчев, К. (1933б).

⁷⁰ See Кинкел, М. (1933), p. 417. This consensus of the mainstream is, however, not shared by authors of AESP, see e.g. Джигров, П. (1932б).

⁷¹ See e.g. Натан, Ж. (1964), pp. 221–233.

⁷² See Бобчев, К. (1931б), p. 486.

⁷³ See e.g. Яранов, Ат. (1931).

⁷⁴ See Бобчев, К. (1930), pp. 215–216, as well as Мишайков, Д. (1935).

⁷⁵ This is even more so the case in the reviews of the AESP, where economic and social aspects are explicitly treated with equal attention. An analysis of the problems of unemployment can serve as a

realizes that all sophisticated policy advice might become worthless if the political and social order collapses due to the social repercussions of the recommendations.⁷⁶ Bearing in mind the development in Germany in the beginning of the 1930s, this seems to be a far-sighted observation. Walter Eucken's starting point for his theory of order (*Ordnungstheorie*), which began evolving exactly at that time, is the so called interdependence of orders, i.e. precisely the fact of the relatedness of all economic (and social) policy which the Bulgarian economists intuitively see.⁷⁷ In contrast, the Austrian School economists like Friedrich A. von Hayek and Ludwig von Mises insufficiently took into account the issue of the political and social dangers of deflation, as Hayek himself confesses in the 1970s.⁷⁸

4.2. Cyclical Policy: What Are the Appropriate Short-term Policies for Bulgaria During the Crisis?

In the previous chapter, the first layer of the economic policy debate was disclosed, that of determining the structural parameters of Bulgarian economy. The timing of those measures is mostly a long-term one, which underscores the fact that the majority of Bulgarian economists were arguing that the crisis is co-driven by the structural deficiencies of the country's economy. The Depression plaguing the country, however, could in their eyes also demand for some specifically anti-crisis measures which should alleviate the hardships of the slump. For this it is important to clarify here the positioning of the Bulgarian debate in the broader European context. Most importantly, Keynes had not yet published his *General Theory*. Politicians in charge of economic policy thus do not yet have the "scientific justification" for anti-cyclical policies which the British economist gave them with his reputation after 1936. In this way the Bulgarian debate is at the verge of these changing theoretical paradigms and reflects the great uncertainty which this quantitatively unique depression poses to both politicians and their economic advisors.⁷⁹

The following figure can clarify the strata of the debate, distinguishing between the broader context of structural policy issues (including social policy) from the previous chapter and the directly cyclical responses of short-term character dealt with below.

good example: see Григоров, К. (1932) or Николов, Д. (1934).

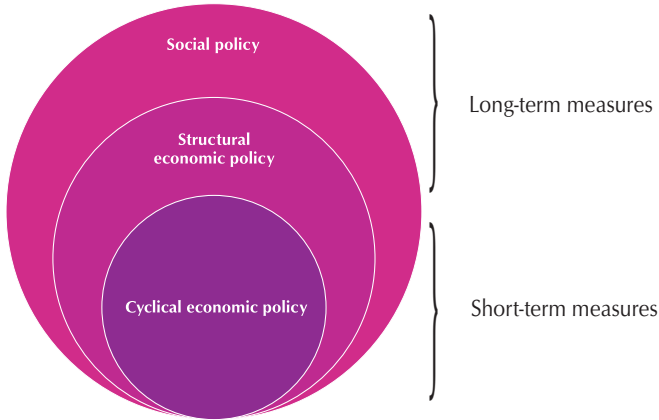
⁷⁶ See e.g. Цанков, Ал. (1932), pp. 22–24.

⁷⁷ For a good exposition of this embeddedness of economic and social policy see Чолаков, Ст. (1932), pp. 146–148.

⁷⁸ See Hayek, F. A. (1975).

⁷⁹ For some pre-Keynesian reasoning on the role of easy money see Чакалов, Ас. (1935B), pp. 571–575.

DIFFERENT (COMPLEMENTARY) TYPES OF RESPONSES TO THE DEPRESSION



4.2.1. Overview of the Competing Theoretical Explanations of the Depression

As mostly in the history of economic thought, also at the time of the Great Depression one cannot speak of a singular theoretical answer which the economic community gives to the challenges of the real world. There are, instead, manifold doctrines⁸⁰ which are in circulation for explaining the coming up of this “end of capitalism”.⁸¹ It is not possible at this place to deal with them in detail since each would demand an individual paper of this size. Just a brief mentioning of the central topics should suffice.⁸²

The first issue which is to be clarified is the question of the cyclicity of market economy.⁸³ This question relates to the topic of whether the major source of the crises which accompany economic growth is endogenous or exogenous. “Endogenous” would mean that the markets themselves are generating the observed instability, “exogenous” that it is external impulses that disturb the markets’ functioning. To the endogenous group of theories be-

⁸⁰ A good overview of the circulating doctrines in Bulgaria can be found in *Божинев, С.* (1930) and, even more detailed, in *Божинев, С.* (1931). Additional doctrines can be found discussed in *Киранов, Гр.* (1931).

⁸¹ For this slogan or Keynes’ earlier “end of laissez-faire” as popular terms in the beginning of the 1930s see *Бобчев, К.* (1933б), p. 197.

⁸² For a summary of the various theories circulating in the debates, see *Бобчев, К.* (1932б), pp. 55–59. Another compact reconstruction can be found in *Шлиманов, Хр.* (1932), p. 64. See also *Бочев, Ст.* (1935), pp. 16–17.

⁸³ There is a consensus on the presence of this phenomenon, see e.g. *Михайлов, Н.* (1930а), pp. 46–47.

longs the (very popular among Bulgarians) “overproduction theory”, which states that the crises are results of huge surpluses which the markets generate without corresponding demand. An example of exogenous explanation of the cycle is the theory of the credit boom (Mises calls it the circulation credit theory), which later becomes famous under the label “Austrian business cycle theory”.⁸⁴ This theory, which in the Western debates of the time belongs to the mainstream, is shared more intuitively by Bulgarians,⁸⁵ probably due to the popularity of the related theory of the English Currency School of the 19th century. In its original form, that of Mises of 1912, it is the exaggeration and malinvestment of the exogenously ignited credit boom which invariably lead to a slump. Whether the Bulgarian credit boom mentioned in the previous chapters can be seen as such an initiating force is not sure, but what is certain in a global perspective is that the late 1920s were characterized by such an international credit boom.⁸⁶

What is common to almost all articles dealing with the causes of the Depression, be they exogenous or endogenous, real or monetary, is the belief that Bulgarian cyclical difficulties are to a very large extent co-determined by the global development, both in the genesis and in the cure of the crisis. Thus the parameters for activity of the government and the BNB via cyclical policy in the small open economy, as will be seen in the following paragraphs, are not perceived by the Bulgarian economic community as particularly large. Truly in the spirit of the epoch, in the analyzed publications of the period some significant hopes for recovery and prosperity are directed at the international level,⁸⁷ e.g. at the multiple international conferences dealing with economic and reparations problems.⁸⁸ This is not to mean, however, that nothing is to be done in Bulgaria: a series of both monetary and fiscal issues are widely discussed and recommended to the politicians for adoption.

4.2.2. Discussion of Monetary Policy Measures

What should be mentioned in the first place regarding the power of monetary measures in Bulgaria of the 1930s is that it is widely perceived by the

⁸⁴ Hayek in his Habilitation thesis proposes an endogenous mechanism via the banking system’s capability to create money. Originally, however, in the version of Mises’ Habilitation, the beginning of the cycle is exogenous, e.g. by a decrease of the interest rate of the central bank; see *Mises* (1912/24) and *Hayek* (1929/76).

⁸⁵ For a brief overview of the early diagnoses of the crisis among the Bulgarian political and economic establishment see *Михайлов, Н.* (1930б).

⁸⁶ The characteristically Misesian term of “credit inflation” can be found *i.a.* in *Бобчев, К.* (1932б), p. 57 or *Божинов, С.* (1930), p. 78.

⁸⁷ See e.g. *Джидров, П.* (1933), pp. 185–186.

⁸⁸ See e.g. *Янулов, Ил.* (1933), p. 83, *Чакалов, Ас.* (1933а), pp. 288–298, as well as *Чакалов, Ас.* (1933б).

country's economists as relatively weak.⁸⁹ The reason for this is the strong agricultural character of the Bulgarian economy of the time.⁹⁰ Certainly farmers obtained credits from the banks, but still the agriculture in the country possesses a very low capitalization. In addition, some of the exchange of harvested goods was settled in a barter fashion, which additionally diminished the power of monetary measures. Nevertheless, for the upcoming industry and the non-barter sector of the agricultural sector, the monetary setting is not unimportant.⁹¹

As pointed out in the section dealing with the facts around the crisis, the monetary conditions in Bulgaria after 1928 and thus for the whole period of the Depression were determined by the Gold-Exchange Standard. Thus some automatism is present for the BNB monetary policy, limiting its discretionary power.⁹² Thus the question arises as to what the proper role of the Central Bank is during the crisis and how it should position itself against the severe difficulties of the economy.

There are extensive discussions in the Bulgarian economic community regarding the functioning of the monetary setting during the 1920s and early 1930s.⁹³ Since most European countries adopt different types of gold-related standards after the inflationary period following the War,⁹⁴ the debate on the suitability of gold as the anchor of the system is applicable both to the international and the national monetary question.⁹⁵ As in the Western debates, the common hoarding and “sterilizing” of gold, as performed by the major central banks of the inter-war period, is heavily criticized by the Bulgarian economists. They describe this behaviour as a major impediment to the proper working of the standard as compared to its smooth functioning before 1914.⁹⁶ Thus there is a criticism towards the concrete implementations of the mechanism in the post-war period.

This is, however, not to be confused with a general critique of the idea of

⁸⁹ See *Бобчев, К.* (1930), p. 216.

⁹⁰ For a discussion of the official (government's) policy proposal, with a special focus on agriculture, see *Коларов, Ив.* (1930), pp. 281–298.

⁹¹ For the role of money and interest rates in a predominantly agricultural economy see *Кожухаров, Г.* (1930), pp. 113–115.

⁹² For the role of a central bank in the setting of a gold-exchange standard, see *Бурилков, Ж.* (1935a), pp. 86–90.

⁹³ For an analysis of the role of central banks as generators of credit inflation in the expansionary years preceding the Depression see *Калинов, Т.* (1932), pp. 27–31.

⁹⁴ For a discussion of monetary reforms in different countries before and during the Depression see *Чакалов, Ас.* (1936b).

⁹⁵ For an overview as to where gold-related standards are still in place 1933 see United Nations (1933), pp. 524–525.

⁹⁶ For the problems related to gold in the crisis see *Михайлов, Н.* (1932a), pp. 93–94 and pp. 102–105.

a gold-related standard itself. The absolutely predominant⁹⁷ judgment among Bulgarian economists is that a fiat money standard as present in the Western discussions, promoted i.a. by Keynes, is not a preferable alternative to the gold-related mechanisms.⁹⁸ The reason for this is probably to be seen in the experience during and after the War when various fiat currencies have disappeared after tremendous processes of hyperinflation. Thus the belief in the stability of government-managed currencies as proposed by Keynes is very weak in Bulgaria. The stability of money, seen as one of its essential characteristics for assisting the market economy, can only be guaranteed in the eyes of Bulgarians by an automatic or semi-automatic mechanism as the one established 1928.⁹⁹

What is the proper role of the BNB in this context?¹⁰⁰ Although the issue is legally settled already in the 1920s,¹⁰¹ there is still a persistent discussion on this issue in the analyzed journals.¹⁰² The first layer of discussion is whether the Central Bank is supposed to be “only” an emission institute or also a part of the credit system of commercial banks. There is, understandably, no absolute consensus on this issue.¹⁰³ What seems to be the majority position is that there should be a division of labour between the different government banks, leaving the BNB as a unique place of guarding the financial system and not being an active player in it in the rank of a (large) commercial bank.¹⁰⁴ Another discussion is focused on the foreign exchange monopoly (*камбиален монопол*) which was entrusted to the BNB¹⁰⁵ and which is discussed (mostly very positive) as a seminal part in the stabilization of the currency.¹⁰⁶

It is difficult to judge from the publications how well the transmission mechanisms of the Central Bank’s policy were functioning in that period. Of

⁹⁷ An exception is the statement of Alexander Zankoff who sees the gold standard as doomed, see *Цанков, Ал.* (1932), pp. 7-9.

⁹⁸ There is, however, a discussion as to the difficulties for immediate recovery of the economy due to the fixed exchange rate in a gold standard, see *Христофоров, Ас.* (1935), pp. 259–261.

⁹⁹ See *Бобчев, К.* (1931б), pp. 484–485.

¹⁰⁰ For the financial situation of BNB in the eve of the crisis see *Лецов, П.* (1930), pp. 148–150.

¹⁰¹ Again, I thank Dr. Roumen Avramov for his comment on the preceding debate in the 1920s which could not be covered in the present paper due to the different period of the analysed journals. The most detailed and critical analysis on the proper role of BNB in the analysed period, with a special focus on the interrelationship between currency policy and general economic policy and the resulting trade-offs, can be found in *Тогоров, Д.* (1933).

¹⁰² For an overview article on this topic see *Бурилков, Ж.* (1935а). Of interest is also the ensuing discussion in the Bulgarian Economic Association, see *Стоянов, Н.* (1935) or *Христов, Н.* (1935).

¹⁰³ For a good exposition of the discussion see *Чакалов, Ас.* (1935В).

¹⁰⁴ See *Бобчев, К.* (1930), p. 214.

¹⁰⁵ For a retrospective six years after the establishment of the foreign exchange monopoly at BNB see *Влашкин, Л.* (1930).

¹⁰⁶ See e.g. *Екимов, Ив.* (1934) as well as *Икономов, Ст.* (1934). For a critical assessment and a proposition for liberalization after the Depression see *Бурилков, Ж.* (1935б). Another note dated before the crisis can be found in *Лецов, П.* (1930).

course, money and capital markets in Bulgaria at that time were in a really nascent state. From this one might infer that the role of the BNB for financing the operations of commercial banks was important due to the lack of an institutionalized inter-bank lending. Thus the role of the main discount interest rate seems to be significant,¹⁰⁷ and even more so after the legislation proposed in 1932 and passed in 1933 which prohibited commercial banks' interest rates to exceed BNB's discount rate by more than 3 per cent.¹⁰⁸ Interestingly, in Bulgaria there are no huge variations in this rate during the analyzed period, it ranged between 10 per cent in 1930¹⁰⁹, 9 per cent in 1931¹¹⁰, 8 per cent in 1932¹¹¹, 8 per cent also in 1933¹¹², 7 per cent in 1934¹¹³ and 6 per cent in 1935¹¹⁴. This is a clear indication of the relatively conservative policy of BNB during the Depression. Bearing in mind the huge deflation rates shown above, one can clearly claim that the real interest rates for the economy were extremely high at this critical time.

As a concluding remark to this chapter, it may be interesting to state that in spite of the strong deflationary pressures in the Bulgarian economy,¹¹⁵ within the economic community there seems to be no Keynes-like anti-deflationary zeal urging for inflationary policies.¹¹⁶ Such ideas were of course discussed in the publications, but were mostly rejected due to the perception of severe dangers for the newly established monetary stability in Bulgaria emanating from them.¹¹⁷ For the same reason, a devaluation of the currency, as practiced by many European countries, is discarded by the economic community and indeed Bulgaria as one of the very few countries does not devalue in the whole of the analyzed period.¹¹⁸

4.2.3. Discussion of Fiscal Policy Measures

The other part of today's canon in anti-cyclical policy is the role attributed to fiscal measures.¹¹⁹ To begin with, the state of the Bulgarian public finances

¹⁰⁷ See e.g. Мишайков, Д. (1934), pp. 631–632.

¹⁰⁸ See Бобчев, К. (1933а), p. 117.

¹⁰⁹ See Близнаков, Т. (1931), p. 294.

¹¹⁰ See Бобчев, К. (1932), pp. 51–52.

¹¹¹ See Загоров, Сл. (1933б), p. 49.

¹¹² See Чакалов, Ас. (1934а), p. 114.

¹¹³ See Чакалов, Ас. (1935а), p. 39.

¹¹⁴ See Чакалов, Ас. (1936а), p. 45.

¹¹⁵ The highly restrictive policy of the BNB and their possible relation to deflation is discussed in Калинов, Т. (1932), pp. 35–36.

¹¹⁶ For an early acclaim of such a non-inflationary policy see Чакалов, Ас. (1930), pp. 222–223. Easy money policy is also rigorously discarded in Иванов, Ал. (1936), p. 583–584.

¹¹⁷ See e.g. Калинов, Т. (1932), pp. 37–38.

¹¹⁸ For an outstanding contribution on the issue “deflation vs. devaluation” see Христофоров, Ас. (1935).

¹¹⁹ An interesting note on the interdependence of monetary and fiscal policy can be found in Петков, Й. (1930), pp. 120–121.

was chronically difficult in the 1920s since heavy war-related reparations had been burdened on the country in the Peace treaties.¹²⁰ However, it might be interesting to note that before the crisis there are some years of surpluses in the budget,¹²¹ which can be interpreted as a sign of rigorous control of the budget's expenditure side. The surpluses not surprisingly disappear,¹²² mainly due to a significant drop in tax revenue as early as in the budget 1930/31.¹²³

An interesting starting point of the discussion is the share of government in the national income at that time.¹²⁴ Since the series of national accounting only started developing in this period, one must rely on some estimate figures. Fortunately, such approximate numbers can be found in JBEA and they suggest that the share of government in the economy is about 30 per cent.¹²⁵ If one accepts this magnitude, the possible fiscal impulses which the Bulgarian government could generate seem to possess potential impact.

What could these impulses be? Most generally speaking, it would be increased by government expenditure *via* a temporarily unbalanced budget, e.g. for construction-related public works or direct subsidies for households or other sectors of the economy.¹²⁶ This is the place where the pre-Keynesian¹²⁷ character of the debate can be most clearly discerned. Such measures are, mostly¹²⁸ discarded by Bulgarian economists in their publications¹²⁹, e.g. by terming them purely "palliative".¹³⁰ Interestingly, AESP authors seem more sympathetic to such measures.¹³¹ The reason for this consensus of the mainstream is similar to the argument for rejection of the monetary impulses: the omnipresent fear of (hyper)inflation,¹³² regardless whether the financing should be by internal or foreign funds.¹³³ An additional restraint in the discus-

¹²⁰ For relationships between the crisis and the reparations problem see *Калинов, Т.* (1931).

¹²¹ For the surplus in the budget 1929/30 see *Чакалов, Ас.* (1930), p. 222.

¹²² For the nominally declining expenditures of the Bulgarian government in the years of the Depression see *Бурилков, Ж.* (1934a), p. 102. For an analysis of the 1933/34 state of public finance, see *Янчулев, Б.* (1934б).

¹²³ For the development of tax revenue 1930/1931 as compared to 1929/1930 see *Ралев, П.* (1930).

¹²⁴ For some estimates of the nominal national income development see *Янчулев, Б.* (1934a), p. 87.

¹²⁵ See *Близнаков, Т.* (1931), p. 297.

¹²⁶ See *Янчулов, Ил.* (1931). For a sceptical assessment of the activity of Bulgarian economic policy in retrospective at the end of the crisis see *Чакалов, Ас.* (1936), p. 33.

¹²⁷ Keynes (having not yet published his *General Theory*) is very widely cited in the publications, however mainly due to his participation at the various international conferences and relatively seldom as an economic theoretician.

¹²⁸ For some sympathetic discussion of the economic policy measures in Germany after 1933, see *Миркович, Р.* (1934).

¹²⁹ A plea for cutting expenses in the crisis for balancing the budget can be found e.g. in *Цанков, Ал.* (1932), p. 21, also in *Янчулов, Ил.* (1933), p. 82; see also *Янчулев, Б.* (1934a), pp. 85–86.

¹³⁰ See e.g. *Калинов, Т.* (1932), p. 33.

¹³¹ See e.g. *Михайлов, Н.* (1933), pp. 254–256.

¹³² For a strongly anti-inflationary stance see e.g. *Загоров, Сл.* (1933a), p. 5.

¹³³ *Янчулов* is willing to discuss public works only if they are decided in an international accord and are internationally funded, see *Янчулов, Ил.* (1931), pp. 638–640.

sions is posed by the unclear future of the public debt level of the country due to the unsettled reparations problem.¹³⁴

5. Comparison with Today's Crisis in Bulgaria: Concluding Remarks

The first global financial and economic crisis of the 21st century is still (mid-2009) leashing back and forth between the major economic zones, strongly distressing also countries like Bulgaria whose interdependence has steadily risen over the last years. More than 70 years after the end of the Great Depression, economists are still in search of explanations for the crises of capitalism. Despite the huge progress in the analytical methods of prediction and the vast computing power behind them, many economists have stunningly failed to foresee the upcoming trouble. The public opinion, just as in the 1930s, blames the profession for its inability to warn it about the dramatic downturn of the cycle.

In such a setting, the history of economic thought can help in a twofold manner. First, it is evident that the lines of debate in the current crisis are very close to the “fronts” in the 1930s. (New and post) Keynesians demand stronger impulses by fiscal and monetary measures, Marxists of all shades see the doom of capitalism (finally) coming, liberals blame the (monetary) authorities for the earlier easy money as the fatal root of the crisis. Some fear particularly the immediate deflationary pressures of the slump, others the inflation in the process of recovery. The picture and choir of voices is at least as incoherent as it was 70 years ago.

There is, however, some hope, and this is the second side of the history of economics “lesson”. The time of crisis is often a time of consolidation of paradigms. Society and academia not seldom have made their choices right after the crisis as to which the “leading” or “guiding” theory of economic dynamics should be for the next decades. For the 40 years after the Great Depression, Keynes and Keynesian economics succeeded in displacing all other explanations to the margins. In the 1970s, again at a time of crisis, monetarism and supply-side economics won the day for the next 30 years. Thus today the “battle of ideas” might be devastating for the profession’s image in the impatient eyes of the public, but for economics itself it may be a catalyst for gaining the formation of a new prominent paradigm for the next years. Which this might be, can only be a matter of speculation at the current point of time. The issue is not yet decided.

¹³⁴ For a theoretically founded public finance perspective on the Bulgarian budgetary problems, see *Стоянов, П.* (1933).

As regards Bulgaria now and then, one of the most fascinating Bulgarian economists of the 1930s, Dr. Assen Hristoforov, should be quoted at this place with his retrospective of the crisis. The author of the current lines shares the optimism and confidence which Dr. Hristoforov exhibits in the market order when he stated back in 1936: "Despite all these difficulties, the capitalist economy has proven far more resilient than many imagined".¹³⁵ The doom scenarios both in a global perspective and especially in the case of Bulgaria seem hardly vindicated. Of course, every major crisis is a source of manifold economic and especially social troubles. Yes, it destroys plenty of prosperity achieved with a lot of painful effort prior to the depression. The *major* difference between the 1930s and today constitutes, however, a significant source of optimism. This difference is strictly speaking beyond the scope of economics and its history. It is the stability of the political system which undoubtedly poses the central distinction between the two crises. Dr. Hristoforov himself became a tragic intellectual victim of the disastrous aftermath, i.e. the spread of totalitarianisms of all kind before and especially after the Second World War. A similar political destabilization process seems highly improbable today, also because of the unprecedented degree of economic integration worldwide.

Thus economists today, in Bulgaria or anywhere else, fortunately have some more time to continue their discourse and find adequate answers to the pressing problems of today and even more so of tomorrow. The tenet of this paper is that it might be accelerating for this reflection to look back, reconstruct and thus trace down the debates in the past. This seems to be true in at least two key aspects: finding and reformulating inspiring ideas and simultaneously avoiding the mistakes of previous generations can only be achieved by knowledge of intellectual history and its evolution.

¹³⁵ See Христодоров, Ас. (1936a), p. 188.

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