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Marinova, Tsvetelina and Nenovsky, Nikolay

New Bulgarian University, University of Picardie Jules Verne

1 September 2023

Online at <https://mpra.ub.uni-muenchen.de/118591/>
MPRA Paper No. 118591, posted 14 Sep 2023 23:27 UTC

A Short History of the Great Depression in Bulgaria¹

Nikolay Nenovsky² and Tsvetelina Marinova³

Abstract: The paper aims to synthesize the causes and factors that have given specific shape to the Great Depression in Bulgaria, its manifestation in the country (Part 1), its phases and forms (Part 2), as well as the subsequent structural change and trajectory of the Bulgarian economy and society (Part 3). We present the major economic ideas as well as the debates that accompanied them. We argue that the overall dynamic of the causes, phases, and consequences of the Great Depression has an internal logic and causal consistency.

Key words: agrarian crisis, financial crisis, Great Depression, Bulgaria, economic policy, economic thought

JEL: G01; N14; N24; N54

Introduction

The Great Depression in the Balkans, including Bulgaria, has not been the subject of any special analysis in the Western literature⁴. Nevertheless, the Bulgarian economy and society during these years have been the theme of a number of in-depth studies by Bulgarian authors from different periods. The ideological and scientific preferences of the authors, characteristic of each period, inevitably left their mark on their interpretations. Nevertheless, each of them has contributed to the overall illumination of the profound changes that occurred in Bulgaria between the two world wars⁵.

¹ This working paper is a preliminary version of a chapter in a book on the Great Depression in Eastern Europe to be published in 2024. The paper was written during the summer 2022 and presented at the ASEES 54th Annual Convention Virtual - October 13-14, 2022 Chicago, USA.

² University of Picardie Jules Verne, LEFMI, Amiens, France and University of National and World Economy, Sofia, Associate researcher at the SU HSE

³ New Bulgarian University, Sofia, Bulgaria, Associate researcher at the LEFMI, University of Picardie Jules Verne, Amiens, France

⁴ Apart from some reviews of the League of Nations (LN) and the Royal Institute of International Affairs (RIIA), there are several interesting studies by Western and Bulgarian authors published abroad, but almost all of them cover the period before the depression, i.e. until the stabilization of the lev, or until the financial crisis of 1931 (Pasvolsky, 1928, Prost, 1925, 1932, Petkof, 1926, Focarile, 1929, Ilieff, 1930, Koszul, 1932, Mollof, 1934). Among the contemporary studies see Tooze and Ivanov (2011). The population census conducted on 31 December 1920 revealed that Bulgaria had a population of about 4.8 million and a territory of 105 324 km². Politically, after the overthrow of the Bulgarian Agrarian National Union (BANU) in 1923, the government of A. Tsankov came to power succeeded by A. Lyapchev in 1926, the People's Bloc in 1931. After 1934 authoritarian regimes were imposed (RIIA, 1936, 1939, PEP, 1945, etc., e.g., Tokushev, 2008, Poppetrov, 2009).

⁵ Since we would like to present our own interpretation without breaking the text, we will note here the main authors we have mobilized who have dealt with different aspects of the Great Depression. These include leading Bulgarian economists such as A. Lyapchev, A. Tsankov, S. Zagorov, G. Svrakov, K. Popov, K. Nedelchev, S. Bobchev, N. Dolinsky, O. Anderson, I. Palazov, G. Danailov, N. Stoyanov, N. Sakarov, I. Stefanov, K. Kalinov, H. Vladigerov, A. Hristoforov, etc., and subsequently L. Berov, L. Leonidov, D. Cohen, R. Avramov, D. Mishkova, R. Daskalov, P. Penchev, M. Dimitrov, M. Ivanov, D. Vachkov, etc. We have also used some archival documents, especially those of the Bulgarian National Bank (BNB).

The main objective of this text is to present in a synthesized form the general dynamics of the Great Depression in Bulgaria, the causes and factors that have given specific shape to its manifestation in the country (Part 1), its phases and forms (Part 2), as well as the subsequent structural change and trajectory of the Bulgarian economy and society (Part 3). We have tried, along with reconstructing the historical facts, to present the history of economic thought and the debates that accompanied them. Without falling into determinism, we argue that the overall dynamic of the causes, phases, and consequences of the Great Depression has an internal logic and causal consistency.

I Initial conditions and vulnerability of the Bulgarian economy on the eve of the Great Depression

The initial conditions of the Bulgarian economy set the direction for much of the Great Depression years. These initial conditions determined the consequences, the policy response and the overall dynamics of the Bulgarian economy in the depression years. Together with this, they also determined the political development of the country, as well as the spread among the Bulgarian elites of certain economic and political views and theories. Initial conditions can be reduced to two groups - first, the internal characteristics of the economy that determined its external and internal vulnerability, and second, the different types of external and internal shocks and impulses that provoked the crisis.

Vulnerability factors

The domestic economic, social and political conditions can be considered as a continuation of trends that emerged after the First World War, as well as before it in the years after the restoration of statehood, i.e., since the liberation from Ottoman rule in 1878.

First, like most European peripheral countries, and especially the Balkan ones, Bulgaria was a poorly diversified agrarian country (over 80% of the population was employed in agriculture, where 2/3 of the national income was generated⁶). Bulgaria suffered from rural overcrowding, permanent fragmentation of land and farms, weak technological armament and generally low productivity⁷ (Tables 1 and 2).

Table 1. Structure of land ownership in 1908 and 1926.

Farm groups (dekari)	Number of farms		Land owned by farms			
			In million dekari		In % of total area	
	1908	1926	1908	1926	1908	1926
Up to 10	120 946	89 040	1,29	0,44	2,8	1,0
11-50	241 438	338 479	9,04	9,68	19,6	22,6
51-100	162 271	210 441	12,41	14,81	26,8	34,5
101 - 300	107 146	107 951	16,89	15,71	36,5	36,6
Over 300	8 710	4 682	6,57	2,25	14,3	5,3
Total	640 511	750 613	46,25	42,91	100	100

Source: Berov, ed., (1989), 436

⁶ According to A. Chakalov (1946), the total agricultural production in 1929 was 25 618 million leva (crop production 16 379 million leva and livestock production 9 239 million leva), and industrial production amounted to 12 714 million leva, or a 66%/33% ratio (Berov, ed., 1989, 444).

⁷ On the agrarian development of Bulgaria, see Yaranov (1931), Dolinski (1936), Totev (1935), and from contemporary authors Dimitrov (2010).

Table 2 Indices of agriculture, peasant incomes and industrial output at 1908-1912 base=100

Year	Agricultural output volume index	Index of real income of peasants against industrial and imported goods	Total industrial production index	Production index of the promoted industry	Manipulated tobacco production index	Tobacco production index
1921	82	81	100	100	100	100
1924	98	109	116	104	157	97
1925	106	128	186	210	167	129
1926	101	118	150	165	136	108
1927	100	114	189	228	134	108
1928	112	140	213	270	111	117
1929	108	123	209	262	110	115

Source: Berov, ed., (1989), 439 and 443

These characteristics not only severely constrained the fiscal base of the government, but also largely determined the political and ideological forces and movements in the country. For example, Bulgaria was the only country in Europe where the peasants actually ruled from 1919 to 1923. During these four years the BANU, led by A. Stamboliiski, made a number of radical reforms and reform attempts in favour of the rural population (Bell, 1977). Despite the efforts, industry did not develop, it remained primarily light, and i.e., linked to local raw materials (food, tobacco, and textiles) see Table 3.

Table 3 Structure of exports as % of total annual average exports for the period

Group of goods	1906-1910	1926-1929
Cereals and flour	64,3	18,7
Tobacco	1,3	39,1
Live animals	5,6	4,4
Livestock works	11,0	13,9
Rose oil	4,1	4,0
Skins	3,5	5,7
Cloth and other textile articles	6,8	3,6
Molasses and other waste	0,3	1,8
Other goods	2,0	4,0
Total	100	100

Source: Berov, ed., (1989), 447

In spite of the above-mentioned backwardness, in the period after 1924/25 until 1929 there was stabilization and revival of the Bulgarian economy. This dynamism followed the world revival, and the protectionist and encouraging policies of the Bulgarian governments were also an important factor.

By the onset of the Great Depression, there was also a shift in the agrarian structure, with grain production giving way to tobacco, which became the main export commodity (see Table 3)⁸. Among the relative successes during this period should be noted the stabilization of the Bulgarian currency, the lev, with the support of two external loans (1926, refugee loan and 1928, stabilization loan). Price rises were contained.

⁸ See Kremenski (1932).

A second important characteristic of the Bulgarian economy, despite the development of the market and monetary economy and the development of the private and cooperative sectors, was that the state was positioned at the centre of economic life. All sectors were either nationalised, controlled or subsidised by the state. The private sector and intellectual elites were "attached" to the state and political parties and lived through them⁹. Were applied trade protectionism and foreign exchange control, as well as encouraging policies (the 1928 law is particularly important here¹⁰). The central role of the state was a universal phenomenon in Europe in those years, and especially in the European periphery. What was specific was that in the Bulgarian conditions some form of path dependence was observed in the dominance of the state, which resulted from the fact that Bulgaria founded its independent statehood only in 1878, after 5 centuries of existence within the framework of the Ottoman Empire (which was also dominated by the state economy). With the gaining of independence, the public administration concentrated the Bulgarian elite, the private initiative was born under the state impulses, and this largely determined the statist trajectory for decades to come.

Third, despite some relief of the debt burden in 1925, Bulgaria, as a defeated country in the Balkan wars and the First World War, entered the depression with a high debt burden (Prost, 1925, 1932). This burden included external economic and political debts (reparations) and domestic debts (direct debt to the BNB). Public deficits were high and public savings were low. As a result of the wars and peace treaties (the Bucharest Treaty of 1913 and the Treaty of Neuilly of 1919), Bulgaria lost important economic territories, e.g., the granary of the country, Dobruja, annexed by Romania. The country also suffered financial losses in the transfer of population between the Balkan countries, the so-called refugee problem. All external burdens expressed in gold did not allow devaluation of the national currency.

Fourth, after the wars, the budget and the monetary system were entirely under the direct control of the LN Finance Committee, the Reparations Commission and the Representatives of the Bondholders. In the period 1926/1928, monetary stabilization based on gold was implemented. External debts and loans prevented an official devaluation of the lev. It should be noted that the stabilisation of the Bulgarian lev was carried out within the framework of a strict foreign exchange monopoly by the BNB. This allowed the Bulgarian authorities, in a foreign exchange monopoly regime, to legally maintain the level of the fixed exchange rate by introducing a number of technical instruments (premiums, etc.), and informally to deviate from the nominal parity¹¹.

Fifth, to the above is added the rapid and uncontrolled expansion of the banking sector and credit, especially after the monetary stabilisation. After 1928/1929, there was an increased inflow of foreign capital, especially into the banking sector, as parent banks transferred deposits to their branches in Bulgaria. Banking institutions became numerous, - in addition to the few state-owned and foreign banks, there were hundreds of cooperative and popular banks, as well as dozens of small and local private credit institutions. Capital inflows from parent banks, protectionism, and good harvests have led to lower interest rates and a significant increase in investment, including in construction and real estate. At the same time, there was a lack of systematic banking regulation and supervision¹².

⁹ See Avramov (2007) and Daskalov (2005).

¹⁰ See Bobtcheff (1939) on the evolution of protectionism, and Vladikin (1932) on the foreign exchange monopoly.

¹¹ For the stabilization of the lev see Nenovsky (2006) in detail, and for the evolution of the monetary and exchange rate system under foreign exchange controls, see Hristoforov (1939, 1943) and Nenovsky and al. (2007).

¹² See Kossev (2008). This was not a Bulgarian phenomenon as it was observed in all countries after the monetary stabilisation (Kindleberger, 1973).

External shocks

The internal vulnerability outlined so far, which in itself indicated an unstable situation potentially leading to a crisis, was also provoked by shocks coming from outside. These shocks were linked to the agrarian crisis in Europe and the closure of the market for Bulgarian goods, as well as the subsequent crisis in the European money market and the European banks. We must also take into account the geo-strategic shifts between the great powers.

The external impulses of the Great Depression are generally well studied by economists. In the case of Bulgaria, they amount to three, namely, (i) a sharp fall in prices of agricultural products at the end of 1929, due to the contraction of external demand, (ii) the complete disintegration of the network of world trade, and finally, chronologically, (iii) - the banking crisis in Austria and Germany (summer of 1931). As far as the geopolitical dimensions are concerned, France and England, the leading powers at the time of the stabilization of the lev, began to give way to a revanchist Germany and Italy. Bulgaria was increasingly attracted by Germany, which supported territorial revenge ambitions. It should not be forgotten that Bulgaria as a defeated country was isolated in the Balkans. It subsequently refused to participate in the economic initiatives to form a Balkan Union, due to the non-recognition of its borders, in the post-war treaties¹³.

In summary, the geopolitical dimension was of utmost importance, and this has been noted by the RIIA in 1939:

"The student of politics who would try to reduce to their simplest expression the factors which have been chiefly responsible for the shaping of the history of South-Eastern Europe, might well be content with restricting them to three basic factors: geography ('the mother of history'), the striking mixture of peoples, and the perpetual and disturbing intrusion of the Great Powers" (RIIA, 1939, 2)

II Phases and dynamics of the Depression in Bulgaria

The crisis and the subsequent depression in Bulgaria can be reduced to two phases - agrarian and financial.

The fall in prices and the agrarian crisis

The first and most vivid manifestation of the Great Depression was the agrarian crisis. It manifested itself as a brutal decline in the prices of industrial and agricultural products, leading to indebtedness and bankruptcies of rural producers.

The decline in prices was extremely severe and resembled that after the war, from 1920-1921. The decline was accompanied by the dissolution of the price scissors, i.e., by changes in relative prices. Although it had already appeared after the war, at the peak of the depression the dissolution of the scissors reached threatening proportions. According to Bobchev (1934, 12), "agricultural products depreciated by 59 percent, industrial products by 28 percent, and the purchasing power of agricultural products declined by 43 percent." The dissolution of the price scissors led to strong redistributive processes in which rural households lost income. Compared

¹³ For a comprehensive geopolitical and economic analysis see RIIA (1939), for the Balkan initiatives see the review in Nenovsky and Penchev (2018).

to 1926, agricultural prices dropped by exactly half (Table 4), and with a 1929 base year the decline was even more significant, farmers' purchasing power shrank by almost half.

Table 4 Wholesale price indices based on 1926 = 100

	Agricultural goods				Non-agricultural/industrial goods			
	Plant foods	Animal foods	Raw materials	Total	Local goods	Foreign goods	Total	Purchasing power of agricultural commodities
1927	106	96	107	103	104	97	102	100
1928	128	100	113	114	102	101	102	112
1929	125	108	133	121	101	100	101	120
1930	69	83	131	91	94	94	94	96
1931	49	64	90	65	77	85	80	81
1932	45	55	75	56	67	85	72	78
1933	35	49	71	50	69	84	73	68
1933 Q1	37	51	76	52	66	86	71	74
1933 Q2	35	45	74	43	70	85	74	65
1933 Q3	34	46	68	47	68	83	72	67
1933 Q4	30	55	66	48	70	83	73	66

Source. There are other indices of price decline that generally yield similar dynamics¹⁴. We have chosen the index constructed by K. Bobchev, because of its methodological soundness and argumentation. Mollof's (1934) index has interesting breakdowns.

The total liabilities of the farmers to the state banks (BNB, Bulgarian Agricultural Bank, Bulgarian Central Cooperative Bank) were about 5.5 billion leva, to the private banks (several foreign and 134 Bulgarian) - about 5.8 billion leva, and to the credit cooperatives (212 popular banks and 1,386 agricultural credit cooperatives) - about 4.1 billion leva, or a total of 15.4 billion leva (Palazov, 1932, 206). As for the debts of the farmers, according to Tsankov (1932, 11-12) they amounted to about 9 billion gold leva, about 75-80% of which was owed to public credit institutions, and 92% of this amount was short-term debt. Again, according to Tsankov, about 20% of this debt was debt for subsistence. The situation of citizens was also dire, with total debts amounting to 142 gold leva per capita.

In fact, in order to preserve their income level, peasants responded to the fall in prices with an increase in production. However, this led to even greater indebtedness and financial difficulties, which could be illustrated by the dynamics of protested bills of exchange, bankruptcies and credit moratoriums.

Table 5. Protested bills of exchange, insolvencies (bankruptcies) and moratoriums

Years	Protested bills of exchange (number)	Protested bills of exchange (million BGN)	Insolvencies (number)	Moratoriums (number)
1928	200 000	1 432	95	153
1929	250 000	2 213	107	211
1931	350 000	over 3 000	224	619

Source: Hristoforov (1946), 163. See the data in Mollof (1934, 137), Kemilev (1936), and in Kossev (2008).

In this environment, agriculture was rapidly becoming naturalized, abandoning market and monetary mechanisms.

"The crisis means for them (the authors: the peasants) a return to greater subsistence, as, in fact, the whole national economy, with a view to the development of domestic production and the

¹⁴ According to testimonies from that time on the commodity exchanges in Varna and Burgas the price of grain collapsed by 50 percent (Bliznakov, 1931, 287).

curtailment of imports, may be considered to be leading towards greater self-sufficiency during the crisis" (Bobchev, 1934, 14)

The problems of agriculture (but not only) were very quickly transferred to the banking system.

The banking crisis and the policy reactions

As mentioned, the banking system was particularly vulnerable because of the credit boom that began in 1925 and gained momentum after the monetary stabilization of 1928/1929.¹⁵ There was an inflow of capital, not only through the two official external loans, but also through the transfer of private capital from foreign parent banks to their Bulgarian subsidiaries. The dangers of this credit crunch were noted by most leading economists, Dimitar Yordanov wrote:

"The world economic crisis of 1929-30 found the Bulgarian banking system in a state of disorganization and fragmentation. At that time there were over 2,000 banking institutions in Bulgaria which functioned in a fragmented and competitive manner. There was extensive and in many cases indiscriminate lending to agriculture, industry, crafts and commerce. Extensive credit enabled the accumulation of large stocks of goods and materials. This accumulation has been carried out with a passion, without taking into account what will be the purchasing power of our national economy in the coming year, which is directly dependent on the agricultural production of Bulgaria. And this production in 1930 was very unsatisfactory. A considerable part of the crops of 1929 froze, with the result that the harvest was insufficient " (Yordanov, 1943, 24).

The banking crisis in Bulgaria has come in three waves. These were two "internal" waves on the line of the real economy and the regulatory policy of the government, those in 1929/30 and in 1933/34, and an "external" wave - triggered by a banking panic, a reflection of the crises of Kreditanstalt and Deutsche Bank.

The first crisis of 1929/30 was a typical twin crisis, i.e. both a banking crisis and a balance of payments crisis (i.e. capital flight and currency crisis). Banks lost deposits and the central bank lost reserves. In reaction, the BNB increased the discount rate from 9% to 10% and kept it high until 1934 (when it reduced it to 7%). The high discount further intensified deflation and recession.

Table 6 Deposits, own funds and placements of banks (million levs)

Years	Own resources	Deposits and foreign funds	Total	Placements (loans)	Number of banks
1929	1157	6959	8116	8442	135
1930	1247	5888	7135	7412	138
1931	1376	4464	5840	6510	131
1932	1343	3918	5261	5361	128
1933	1256	3293	4549	4406	119

Source: Rusenov, ed. (1983), 728

The second crisis was liquid and systemic; it came in the summer of 1931. The leading banks were affected, such as the Credit Bank (*Kreditna banka*), whose main shareholder was Deutsche Bank. The panic was extremely strong, and only the rapid intervention of the BNB and the contacts of the director of the Credit Bank, Marko Ryaskov, managed to prevent a systemic bank failure.

¹⁵ The banking crisis, the BNB's policy as Lender of Last Resort and safety net, and the debates of those years are detailed in Nenovsky and Torre (2022).

"However, I calculated that if the run (mass withdrawal) continued the next day, the bank would be put in an untenable position. I therefore went to the management of the central bank to describe the situation and ask for assistance. The Board of the central bank was watching with great anxiety the development of the first event in the life of banking in our country and was ready to listen to my suggestions. I was easily able to convince the management of the Bank that if the Credit Bank saw itself forced to close its counters, the crisis would inevitably affect the other banks and spread throughout the country. [...] Both sub-governors went to report to then Finance Minister Alexander Girginov, who in turn took them to then Prime Minister Alexander Malinov for a decision. To my honour, Prime Minister Malinov had said that he had absolute confidence in me and gave his opinion that I should be helped at any cost, so that our country would be kept from financial ruin" (Ryaskov, 2006, 65-66).

Finally, the third crisis, that of 1933 and 1934, can be interpreted as a reaction to the regulatory policies of the government in particular, and the BNB in part. Regulatory policy led to the emergence of moral hazard (in the words of those years - "undermining payment morality"). In fact, after the 1931 elections, a new political formation came to power, the People's Bloc (1931-1934) and the governments of A. Malinov and N. Mushanov. They raised the slogans of debt forgiveness. Thus, in 1932, two laws were adopted - the 'Law on the Relief of Debtors' and the 'Law on the Protection of the Landowner-Farmer'. Debates began for the creation of a Sinking Fund, which was launched in 1934. At the same time, the banking sector was nationalized, through consolidations and state intervention. In 1931, the Bankers' Council was established, and regulations on deposit insurance, liquidity, equity and large exposures were adopted.

Of particular interest is the Sinking Fund, which issued 2, 10, 15 and 20 year 3% bonds in exchange for 30% of farmers' total debt. These bonds replaced about one third of the total debt, and the assumption of the debt was according to the degree of indebtedness, the debtors were grouped into three categories. In effect, the state took on the burden of making contributions to the Sinking Fund. Bonds replaced debts in the banking system's assets and in 1938 they accounted for about ¼ of their balance sheets. The two state banks, the Bulgarian Agricultural Bank and the Bulgarian Central Cooperative Bank, concentrated about 36% of these bonds, 21% were held in the popular banks, and only 7% in the private banks (Hristoforov, 1946, 186). These bonds could be discounted at the BNB; thus, the Sinking Fund became a kind of intermediate form of Lender of Last Resort. According to Slavcho Zagorov, for example:

"Bulgarian agriculture should set itself two big goals. 1. To reduce the debt burden of our farmer without upsetting the credit in the country and 2. To restore the paying morality of our peasantry [...] Material sacrifices will, however, go in vain unless a moral basis is created for strengthening credit in the country by distinguishing between the possibility and the impossibility of scaring off existing agricultural debts in the short term and by providing for a different fate of the good and bad debtors" (Zagorov, 1933, 3, 9).

According to another leading economist, Iliya Palazov:

"In 1920, 1921, 1922, 1923, when the lev depreciated and the debtors repaid with insignificant sums the old golden levs, nobody thought then of the creditors whose capitals melted. For example, the Bulgarian Agricultural Bank was completely invalidated because the farmers sent to it their debts, which they had made in gold levs, in paper levs, devalued 30 times. Just as nobody thought of the creditors then, so it is not fair today to ask that the debtors be helped, with the entire burden falling on the creditors alone, and as only the private creditors are being asked. [...] Our assumption of the defeat of these two laws on our lending organization was unfortunately borne out very early. Already during the debate on the two bills, small joint-stock banks suffered a heavy defeat. The majority of them stopped payments. And only the dispute whether or not to privilege the popular banks caused them to withdraw about 150 million levs in deposits" (Palazov, 1932, 219).

Similar interpretations of the laws on debtors are given by Kiril Nedelchev, for whom:

"An across-the-board thirty per cent relief of all debts up to two hundred thousand levs, as projected, instead of relieving, will further aggravate the debtors' situation, because it is small, unfair and dangerous. Small, because he who cannot pay a thousand will not be able to pay seven hundred. Dangerous, because it will kill credit to small, already poorly creditworthy persons. Unfair, because large debtors who have used other people's money not for consumption but for productive purposes, and whose enterprises are facing disaster, get no relief." (Nedelchev, 1941 [1931], 37).

The same damaging "behavioural" consequence had also the process of large-scale consolidation and the banking system, which practically led to the nationalization of the banking system. Thus, in 1930, 12 small joint-stock banks were merged into the United Bulgarian Bank, and in 1934, 7 joint-stock banks were merged into it to form the Bulgarian Credit Bank, in which almost half of the capital became state-owned (through a loan from the BNB).

Politically, in May 1934, a military coup took place, the National Assembly was dissolved, the parties were closed down, and from 1935 an authoritarian regime of the Tsar was imposed. This continued until May 1938, when the National Assembly was restored. Despite being drawn into the German economic zone, which will be discussed in the next section, Bulgaria managed to maintain political neutrality until 1 March 1941, when in Vienna, Prime Minister Bogdan Filov signed the accession to the Tripartite Pact¹⁶. The country thus became an active participant in Second World War, joining the side of Germany. As such, Bulgaria occupied Macedonia, Western Trace and part of Serbia, after having previously in 1940, peacefully regained Southern Dobruja.

III Theoretical diversity and development trajectory of Bulgaria

Bulgarian economists and the depression - an overview

The Great Depression caught the Bulgarian economists in a state of conceptual and theoretical diversity in conceptual and practical terms. It can be summarized into five groups, - (i) classical liberals, (ii) adherents of the historical and evolutionary school, (iii) adherents of the subjective Austrian school, (iv) scholars with quantitative and monetary views, and (v) Marxists-Leninists. In their majority (with the exception of the Marxists), at the beginning the Bulgarian economists considered the Great Depression as a cyclical phenomenon, related to the disturbance of the equilibrium of the market and prices, as a result of changes in supply and demand¹⁷. They do not see the depth of the crisis. For example, the 1929 BNB Annual Report, in its analysis of the Bulgarian economic situation at the onset of the Great Depression, stated:

"The exchange rate situation, as well as the measures taken by the bank's management, do not give any cause for concern regarding the stability of the lev. Unfortunately, such disturbing rumours find rich soil in our society, constantly worrying about various phantasmagorical fears, such rumours get out and cause great damage to our finances. The bank's management is doing its best to dispel all worries and doubts and to assure the public that, despite the adverse economic developments, the BNB, together with other economic representatives, is capable of maintaining the stability of the lev" (BNB, 2001, 262).

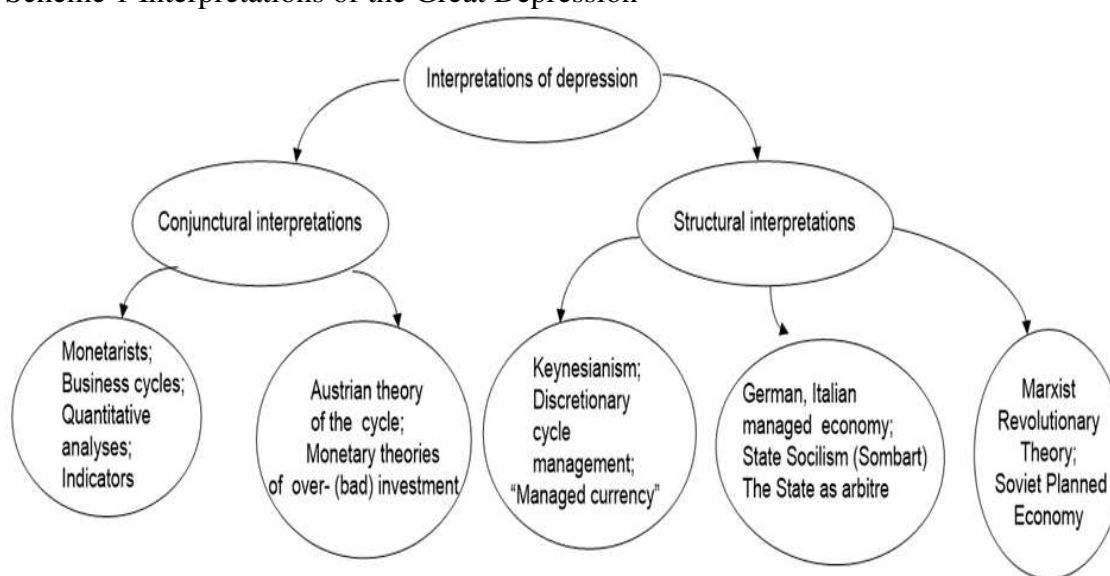
¹⁶ The Tripartite Pact was signed in September 1940 by Germany, Italy and Japan.

¹⁷ A comprehensive analysis of the approaches and evolution of Bulgarian economists during the depression years is made in Bulgarian in Nenovsky and Andreev (2013), and in English in Nenovsky (2012).

It should be noted that during all the years of attempts at stabilization, on the eve of the crisis, as well as during the crisis, - the role of mass behaviour and in general social psychology in determining not only specific economic and political decisions, but also when choosing the general development trajectory of the country¹⁸. The role of the media, especially the press, which creates or reinforces social fears, rumours, etc., is growing significantly. In this regard, the role of Petar Cholakov - Zarin (former representative of the BNB), can be given as an illustration. In a number of journalistic publications, he reveals abuses, "robberies" and incompetence in the central bank and in general of the political elite (Cholakov-Zarin, 1929).

Very quickly, however, and especially after the aggravation of the agrarian crisis, Bulgarian economists realised that this was a deep structural crisis. In general terms, they evolved towards structural interpretations, and eventually the model of governance and state economy was imposed as vision and policy. This was a corporate model characteristic of the German and Italian economy (see diagram 1).

Scheme 1 Interpretations of the Great Depression



Source: Nenovsky, Andreev, 2013

Bulgaria in the German economic and clearing zone

The economic, financial, political and geopolitical factors made it possible for Bulgaria to shift to the model of state capitalism and eventually to become part of the German economic zone and its Lebensraum. What was the manifestation for Bulgaria of this nationalization and subsequent incorporation into the German economic space. How did it change the nature of the Bulgarian economy, economic policy and, in general, the social and political model of the country? We will note the following points.

First of all, nationalization, protectionism and encouragement are gaining more and more momentum, the state was intervening in and controlling more and more economic sectors, processes triggered by the adjustment of the Bulgarian economy to the needs of Germany. As we have shown, the banking system was *de facto* nationalised, the Credit Bank (*Kreditna*

¹⁸ In this connection, it is appropriate to note the growing popularity among Bulgarian economists of the psychological theory of exchange rate formation and monetary stabilization developed by the French economist Albert Aftalion (who, by the way, was born in Bulgaria).

banka) becoming the main transmission institution during this period. Public bail-out mechanisms were set up for peasant debtors, which put a heavy burden on the budget.

Secondly, entry into the German clearing zone led to the introduction of total exchange controls, centralized in the BNB¹⁹. Foreign trade flows were almost completely transferred to the state and various state-owned organizations, such as the specialized agricultural export company Food Export. Nominally, the exchange rate was maintained after the devaluation of the franc in 1936, but a number of exchange rate coefficients (currency premiums, etc.) were introduced and constantly changed throughout the period.

In particular, Bulgaria concluded a number of agreements and clearings²⁰, starting with Austria (October 1931/1933), Switzerland (April 1932/1933), Germany (June 1932) and Italy (April, 1934). The partial agreements were followed by Bulgaria's general and extended clearing agreements with Germany and Czechoslovakia (concluded in September 1932), with Austria, Poland, Switzerland, Belgium, France, Yugoslavia and Hungary, concluded in 1933, with Yugoslavia, Turkey, Italy and Spain in 1934, and with the Netherlands and Romania in 1935 and Finland in 1936. According to Michaely's (1962, 691) calculations, Bulgaria ranked first out of the 60 countries surveyed in clearing, with bilateralism (bilateral clearing) covering about 87% of its trade in 1938 (against an average of 70% for all countries). Other economists give similar figures²¹.

Table 7 Clearing and non-clearing trade of Bulgaria

Years/shares	Export (shares, %)				Imports (shares, %)			
	Clearing in total export	Germany in total export	Germany in total clearing	Non-clearing in total exports	Clearing in total imports	Germany in total imports	Germany in total clearing	Non-clearing in total imports
1934	78.97	48.05	60.84	21.03	78.30	48.87	62.43	21.70
1935	77.25	49.48	68.09	22.75	80.19	59.82	75.11	19.81
1936	69.44	50.53	72.78	30.56	81.70	66.67	81.58	18.30
1937	65.52	47.11	71.91	34.48	79.90	58.22	72.82	20.10
1938	77.24	58.86	76.21	22.76	74.02	51.43	70.22	25.98
1938a	71.68	51.49	71.78	21.40	74.74	54.10	72.38	25.32
1939a	72.81	59.43	81.63	27.19	80.89	61.04	75.46	19.05

Note and source: Export/import data refer to the first five/four months of the year, Hristophorov (1939)

Difficulties in clearing, the need for greater flexibility, and the need for free currencies led to the emergence in Bulgaria of private compensation, a form of barter, which became particularly widespread in 1933-1935. In general, this form was particularly common in the Balkan

¹⁹ Roughly speaking, there were three zones, the devaluers led by England, the gold standard maintainers led by France, and the exchange controls and clearing led by Germany (Aldcroft, 1977, Kindleberger, 1973, Milward, 1979).

²⁰ Technically, in the clearing system, the importer pays in its own currency by depositing the money with the national central bank, and the exporter receives the foreign exchange proceeds in its own currency in an account at its central bank (see detailed analysis in Georgiev, 1955, Nenovsky and all., 2007, and in Arndt, 2014 [1944], also Roselli, 2014). This is done at a pre-determined exchange rate (there are different possibilities for its determination, notional, official, official with a premium, parity, market, etc.). Usually, the country with the strong currency (overvalued) loses and accumulates a positive clearing balance that cannot be satisfied. The country with the overvalued currency seeks to increase its purchases outside the clearing because inside it loses. One country becomes a creditor of the other (this was the case with Bulgaria in its relations with Germany, we shall see this later).

²¹ Benham (1939) and Neal (1979). On the state of the Bulgarian economy under German auspices, see Cohen (2002), Hauke (2017 [1942]), Koleva (2012).

countries, where exchange rates were overvalued, and where active balances with Germany were observed. As a result, these countries sought to diversify and stimulate their trade towards countries with free currencies. In contrast to clearing, where the exchange rate is fixed, private compensations allow it to deviate and fluctuate (in private compensations, imports are allowed only in exchange for exports of certain goods, and part of the currency can then be sold on the open market). This is done through the so-called currency premiums, which in Bulgaria reached 20-40% above the official exchange rate. These premiums are a form of informal devaluation and they help exports to countries with convertible "free" currencies, but they make imports more expensive and lead to a number of structural distortions²².

After 1934 and especially after the beginning of the war, trade with Germany mobilized the entire Bulgarian economy. The controversy over the "exploitative" clearing trade with Germany is still a subject of analysis today (Cohen, 2002). In reality, Bulgaria's ties with the German economy were the result of geopolitical choices. According to sociologist Nikola Agansky:

"In international relations, the principle that the exchange of goods between states rests not only on an economic basis but is either the result of a particular policy or is a prerequisite for a political orientation is strongly established " (Agansky, 1936, 132).

In reality, it is a matter of forming geopolitical blocs, within which Bulgaria fits into the German zone, due to territorial and political ambitions, as a result of severe debt problems, as well as the complementarity of the two economies. The political, economic and cultural processes of rapprochement go hand in hand (see the review book by G. Markov, 1984)²³. In fact, the strong economic dependence and lack of diversification are seen as a danger by a number of Bulgarian economists (including the mentioned Agansky).

An important moment in Germany's relations with Bulgaria was the intergovernmental clearing agreement signed in 1940. This allowed Germany to transfer resources from Bulgaria. Since German purchase prices were significantly higher than those of other countries (Hristoforov, 1939) and Germany limited its exports in order to concentrate resources domestically (Toose, 2008), Bulgaria exported significantly more to Germany than it imported from it. The terms of trade were favourable for Bulgaria. In general terms, Bulgaria exported agricultural products and imported raw materials for industry.

After 1934 Bulgaria accumulated a significant positive clearing balance with Germany, which was not covered either by imports of machinery and raw materials or by capital inflows (subsequently, after the end of the war, these amounts were lost). In the last years of the war, in order to clear the balances, the German negotiators on the clearing lists offered unnaturally high and "arbitrary" prices for their machinery, and artificially low prices for Bulgarian goods, even becoming aggressive at certain times. In the memoirs of the High Commissioner of the Bulgarian military economy, Petar Aladzhov, during the difficult negotiations, within a series of confidential minutes at the end of 1943²⁴, he noted:

"Recently, the German side has been arbitrarily increasing the prices of its export goods, while the Bulgarian prices have remained almost at the same level as before [...] Germany was no

²² See for these mechanisms Nenovsky and all. (2007), and also Kalinov (1935, 66-98).

²³ There are numerous testimonies about the German leaders' interest in and respect for Bulgaria. For example, the visit of the Reich Minister of Finance Graf Schwerin von Krosigk in November 1941, and the publication of his book (1943), in which he explicitly emphasizes the geopolitical and strategic connection and proximity of Germany to Bulgaria.

²⁴ The German-Bulgarian Government Commission held nine meetings in the period 1940-1944 (in detail, Cohen, 2002). In 1943, serious clearing problems occurred for Germany, it had nothing to pay with, and even a plan emerged to offer its trading partners shares in German enterprises (Toose, 2008, 257).

longer able to supply the required quantities of certain machines, but at best only supplied single units [...] The German side was very anxious to receive the entire quantity of tobacco produced in Bulgaria. The Reich's plenipotentiary for tobacco was named Dr. Wenkel. He had an injured leg and walked with a cane. During discussions with our Minister of Trade, Nikola Zahariev, it had come to the point that Dr. Wenkel had reached out to hit our Minister with the cane. Apparently, how much the passions about Bulgarian tobacco had heated up..." (Aladzhov, 2000, 121-122)

In fact, in the foreign trade contracts with Germany, there was no clause for a ceiling on the clearing balance, and for the ways and terms, which put Bulgaria under constant pressure (the BNB issued levs for this amount without any real imports). The clearing balance also included non-trade payments, as well as "domestic" exports to Germany (the cost of supplies for German troops in the country). According to D. Cohen, by 1944 the total amount of the active balance was 25,406.1 million levs, of which only 30.4 per cent was on foreign trade, a balance of 7,725.5 million levs (it is presented in Table 9).

Tab. 9. Bulgaria's foreign trade with Germany (incl. Austria, and from 1941 incl. Bohemia and Moravia (in million levs)

Years	Export	Import	Balance
1939	4311,1	3613,6	+ 698,2
1940	4378,0	5209,2	- 830,3
1941	6743,7	8148,3	- 1404,6
1942	976,7	8503,2	+ 1473,5
1943	13 109,7	10 555,3	+ 2554,4
1944	10 099,5	4865,2	+ 5234,3
Total	48 620,3	40 894,8	+ 7725,5

Source Cohen (2002), 183

Thirdly, it is appropriate to note the structural change of the Bulgarian economy, aimed entirely at satisfying the military needs of Germany. Here we take the liberty of quoting the best expert on the military economy of this period, David Cohen, who wrote with some Marxist overtones:

"Bulgaria's economy during World War II developed under the growing influence of Germany. In relation to Bulgaria, this was a policy of developing it as a source of agricultural produce, with mainly light industry, and turning it into a supplier of minerals for the needs of German heavy industry. Through its unequal trade agreements Germany aims to import Bulgarian products cheaply, to export at high prices its sometimes obsolete and low-quality manufactured goods, to use the mechanism of Bulgarian-German clearing to credit the German economy, and to transfer the maintenance of German troops in Bulgaria to its finances. The government, which had submitted to the economic aims of Germany, tried to reorganize the national economy on military lines [...] A policy of complete centralization of the management of the economy, of the German and Italian type, was unsuccessfully pursued [...] The structure of sown and planted land was changing, with an increase in the relative share of extensive crops, which was a retrograde development of agriculture." (Cohen, 2002, 259-260).

According to another researcher:

"A typical example of this is provided by the overvalued rate of the German mark in all clearings with the south-eastern countries, which upset their trade with the rest of the world and turned them into an agrarian appendage of the Hitler's war machine. Through brutal interference and political pressure, the Hitler's aggressors imposed different mark-ups on individual countries and thereby achieved the redemption of vast masses of goods in exchange for the formation of clearing balances. [...] Thus clearing payments during the war brought the following benefits to Nazi Germany: the supply from abroad of vast quantities of goods for the civil and military economy, the use of hundreds of thousands of workers from abroad in return for payment of their rationed supplies alone, the maintenance of its troops in occupied and conquered countries,

the lending of capital and working capital to its military enterprises abroad without interest and without return, facilities in the financing of the war economy. (Georgiev, 1955, 24, 43)

The economic and structural changes outlined above inevitably led to the emergence of new social forces and movements, the spread of views, ideas and theories that argued for and modelled the new social and political order.

New political movements and the debate on managed and planned economy

After the crisis, and especially after 1933/34, with Hitler coming to power, and based on the Italian fascist model, new ideas began to make their way. They sought a third way, different from that of market capitalism and Bolshevik socialism (Tsankov, 2020 [1942], Filov (2022 [1942])). The third system is mostly seen as a manifestation of a corporatist model of class peace in which the state is the supreme arbiter, a model generally authoritarian and built on the principle of leadership. The economic dimension of this model was the guided/directed, planned and autarchic economy. These ideas quickly found their social and political bearers, as well as their theoretical exponents among economists, lawyers, and sociologists.

The new economic system called by some Bulgarian economists "socialist or national social" (Tsankov, 2020 [1942]) was a reaction to the exacerbation of social and class pretensions in those years, taking into account that Bulgaria already had experience of radical rule. It was that of the peasants who ruled the country between 1919 and 1923 and were overthrown in a coup. To this experience can be added the active workers' and communist movements and the growing influence of the Comintern and Bolshevism.

We mentioned that from 1934 until the end of the war, Bulgaria had authoritarian rule, the military (1934-1935), and the personal regime of the monarch Boris III (1935-1943)/the regents, who tried to stop even more radical authoritarian and numerous movements like that of A. Tsankov's "National Social Movement", I. Minev's "Union of the Bulgarian National Legions", the Union of the Ratniks, as well as organizations such as the Association of the Reserve Officers in Bulgaria, the Bulgarian Popular Union "Kubrat", the Union of Bulgarian Fascists, the Union "Bulgarian Homeland Defense", the political circle "Zveno", the Bulgarian youth organization "Brannik", etc.²⁵

In theoretical terms, initially, the ideas of Italian fascism and the corporative model entered, already in the late 1920s (here the most serious theorist was Alexander Staliiski, who published his fundamental work, *The Fascist Doctrine of the State*, 1929), and later the models and experience of National Socialism of Hitler's Germany. Parallel to German practices, the ideas of the directed, guided economy, which were developed in France and the French-speaking countries, began to be increasingly commented upon (see the overview of the guided economy in Vladigerov, 1939). The French ideas, carried a certain nuance not only in purely economic terms, but also in political terms. They served to argue for a general tendency to increase the role of the state without being exclusively tied to German practices.

All kinds of models of a new economy have one philosophical source, that of universalism, which evolved into corporatism (O. Spahn), of solidarism (L. Duguit), and of integralism" (here the main authors were Italian). And precisely because these theories are philosophical and legal, one can assume that Bulgarian lawyers were significantly ahead of economists in their knowledge of the structure of the state, and economists followed them and copied some of their

²⁵ A detailed documentation of this authoritarian movement, as well as its main programmatic documents, is collected in Poppetrov's book (2009).

formulations (even due to the fact that both economists and lawyers in general worked at the Faculty of Law of Sofia University as L. Vladikin, for example).

Later, and as a final result of his research, the famous economist and politician A. Tsankov, published the book "The Three Economic Systems. Capitalism, Communism and National Socialism" (2020 [1942]), in which he summarized his views on the three possible ways of organizing society. In this work, Tsankov defined the three economic models with poster simplicity. National socialism, in Tsankov's eyes, transcended the other two; he synthesized them in a Hegel-style into some third higher state that brought together the best of both systems and rejected their harmful elements.

Another important topic is that of autarky of the new economic model. An important point in the discussion are two visits of foreign scholars. The first one was Werner Sombart's visit to Bulgaria, he is one of the ideologists of autarky and the new economic system. Sombart gave two lectures from 25 October to 2 November 1932, in the presence of the leading economists of the time, Prime Minister N. Mushanov, as well as many of his former students (G. Svrakov for example)²⁶.

The second significant event was the visit to Bulgaria of the Romanian protectionist Mihail Manoilescu. Manoilescu's book found wide resonance in Bulgaria, and Konstantin Bobchev (1933) made his own counter-theory (Nenovsky and Torre, 2015). Manoilescu's protectionist theory later evolved into the model of integral corporatism (Manoilescu, (1938 [1934])), largely shared by Dimitar Mishaykov.²⁷ In 1937 Bobchev set out his protectionist theory based on the postulates of marginalism, and criticized Manoilescu's system, resting on a labour and cost theory²⁸. This monograph was highly appreciated by Bulgarian economists (Zagorov, 1937).

Concluding remarks

The Great Depression had a fundamental impact on the Bulgarian economy and society, on the political and scientific life in the country.

The agrarian nature of the country, Bulgaria defeated and "humiliated" in the two previous wars (the Second Balkan War and the First World War) and the peace treaties, with heavy economic and political debts, highly dependent on geopolitical processes - all this determined the trajectory of the Bulgarian economy and society during the years of the depression and after.

The Bulgarian elites responded to the Great Depression with an intensification of the inherent tendency to nationalize economic life - nationalism, protectionism, control of domestic and foreign trade, exchange controls and planning (the first attempts at multi-year planning, especially of agriculture²⁹). Very quickly, for revenges and purely economic reasons (complementarity of the structures of the Bulgarian and German economy) Bulgaria became fully integrated into the German clearing, economic, and political orbit. This not only changed

²⁶ Sombart was extremely popular among Bulgarian economists, and in general in the Balkans (his second wife was Romanian), and this happened in the first years of the 20th century, with his books and publications on modern capitalism and before it evolved in the direction of autarky, organic economy and so on (he did this much later in the 1930s). A particular propagandist of Sombart's ideas was the leading Bulgarian economist in those years, Georgi Danailov (Nenovsky, 2012). After Sombart's noted visit to Bulgaria, his books *The Crisis of Capitalism* (1932), *German Socialism* (1935), and *World perception, Science and Economics* (1938) were translated and published.

²⁷ Mishaykov speaks of an "integralist economic system" alongside an "individualist economic system" and a "socialist economic system", Mishaykov (1933, cited in Poppetrov, 2009, 367).

²⁸ Blancheton and Nenovsky (2013).

²⁹ For example, *Five-Year Agricultural and Farming Plan 1942-1946*, Sofia 1941, see also Filov (2022 [1942]).

the nature of the economy, but had a comprehensive impact on political and social processes. In the field of economic theory the theories of managed and planned economy, autarchy and protectionism spread. The political system was also profoundly realigned towards a non-party and authoritarian model.

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LN - League of Nations

PEP - Political and Economic Planning

RIIA - Royal Institute of International Affairs

ESPA - Economic and Social Policy Archive

JBES - Journal of the Bulgarian Economic Society

PSIES - Proceedings of the Statistical Institute for Economic Studies at Sofia *University*

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