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Protectionism in Bulgaria during the Great Depression: Theory and Practice

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ABSTRACT

This paper presents the theory and practice of protectionism in Bulgaria during the Great Depression. That global cataclysm that lead to the abandonment of free international trade and intensification of protectionist policy applied by all countries in various forms to reach autarchy where countries produced mainly for their domestic markets with the resources they had. The theoretical justifications for protectionism, made by the Bulgarian economists who worked during that period, as well as the various forms of its implementation in Bulgaria are derived.

Keywords: Economic theory, Protectionism, Economic crises, Monopoly, Price scissors

JEL Classification: B20, B 29, B13, D42, E31, E32, N54, N14

Introduction

Protectionism in Bulgaria was gradually established as an economic policy after the liberation of the country from the Ottoman Empire in 1878, as by the end of the 19th century it was mainly applied in Bulgarian industry, not well developed as it may be due to lack of capital. Bulgarian industrial production was supported by the state with the adoption of the Law on the Encouragement of Local Industry and Commerce in 1905, under which there was no import duty on raw materials and machinery, the industrial producers had discounts for rail transport, got free places to build factories, and were exempted from property tax, etc.[22] This law was amended in 1928,[23] as value added taxes were imposed on the import raw material and after the adoption of an Ordinance on the Law on Industry[24] the import has become a subject to customs duties. Turnover tax was introduced and the tax relief privileges were abolished.

Agriculture was a key sector in Bulgarian economy in the 19th century and early 20th century, as the satisfaction of the domestic market with agricultural products did not require protectionism. During the First World War (1914-1918) the government created a state monopoly on the purchase of agricultural products,[25] which with few interruptions, and under a different name was still existing in 1930-ies and represented the main form of protectionism in Bulgarian agriculture by the end of World War II (1939-1945).

After the end of WWI (1918) Bulgaria aimed to sustain the stability of the national currency by conducting reforms in 1924 with the aim to turn the national bank of the state, Bulgarian National Bank, into a modern emission bank. The stabilization of the Bulgarian lev traces the trend of the remaining European currencies which follow the orthodox monetary theory according to which a stable currency and balanced public finances lay in the base of the economic development (Nenovsky, 2006). A gold specie standard was introduced according to which the notes emitted by BNB should be covered by their equivalent in gold in 1/3 of their value and the stabilizing loan, taken by the government in 1928 fixed an exchange rate of 92 lev per one gram of gold. Before the economic crisis BNB imposes control on the foreign currency trade and credit ting within the country which in fact controls both import and export. The number of foreign banks in Bulgaria have increased in 1928-1929 as well as the amount of the credits taken; the crisis of 1930 leads to credit decrease and withdrawal of the foreign banks, bankrupted Bulgarian banks and decrease of credit which nearly leads the Bulgarian credit system to a collapse.

The heavy reparations imposed on Bulgaria after the signing of the peace treaty of 1918, the accommodation of refugees and the other problems of the Bulgarian economy presumed strengthening of protectionist economic policy, which was imposed in all sectors of the national economy during the 1930s.

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[22] The benefits under this Act were for companies that used 10 horsepower energy, the invested capital is over 20 000 gold levs and had more than 10 workers.

[23] *Official Gazette*, n° 58 (14/06/1928).

[24] *Official Gazette*, n° 193 (27/08/1936).

[25] During the First World War (1914-1918) in Bulgaria it was adopted *"Law on Business Care and Public Prudence"* (*Official Gazette*, n° 180, 26.08.1916) through which the state was directly involved in the marketing of agricultural produce. Since 1917 that activity was carried out by the Directorate for Business Care and Public Prudence.

Attempts to Justify Protectionism

The Great Depression caused abandonment of the policy of liberalism in international trade by most countries of Central and Eastern Europe and imposing of protectionism. Each country tried to enact customs policy in accordance to their interests. The countries divided in two groups : some of the states were trying to establish autarchy, while others strived to preserve their relative freedom in trade relations. (Yankov, 1935) The economic policy of protectionism of the big states put the East European countries in unfavorable position. The bilateral trade agreements was the only way for the agricultural countries of Eastern Europe to maintain active trade balance in order to preserve the stability of their currency and to pay their obligations. Bulgaria, according to Asen Chakalov[26] should organize its economy so that it could manufacture goods sold at a high price in Western Europe. The country could not rely on foreign loans and had to reorganize its banking system to grant loans for its production at low interest rate. (Chakalov, 1933)

Different monetary policy during the economic crisis forced the countries that had not depreciated their currencies /France, Belgium, Italy, Bulgaria/ to adopt protectionism by introducing high customs tariffs and defining contingents for import. "Because when a country under the pressure of the general economic crisis, was forced to devalue its currency it acquired on the markets of its neighbors that had preserved the parity of their coins, a new competitive capability able to threaten the external economic equilibrium in these countries." According to Asen Hristoforov,[27] the crisis caused devaluation of currency imposing protective customs duties thus reducing the international trade and expanded the crisis. (Hristoforov, 1935, 253)

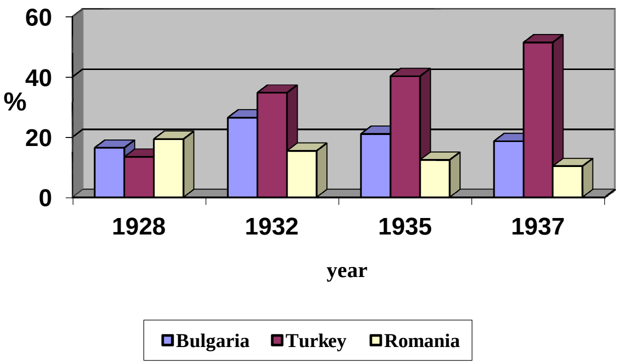
During the 1920-ies the customs taxes in Bulgaria were increased several times the aim being to adapt to the Bulgarian lev devaluation. The price drop in the late

[26] Asen Chakalov (1899-1985). PhD in Political and Economic Sciences of the University of Munich (1922), he was head of the Department of financial studies at BNB (1925-1940) and member of the Bulgarian delegation during the negotiations about the payment of the foreign loans in the 1930s. As senior research fellow and head of department in the Economic Institute at the Bulgarian Academy of Sciences (1956-1965), he made the first systematic and detailed study of national income and balance of payments of Bulgaria.

[27] Asen Hristoforov (1910-1970). Graduated from London School of Economics, he worked in the Statistical Institute for Economic Research, and made the first study in Bulgaria of the economic cycle. Author of many publications in economics, he taught at Sofia University and the State Higher School of Finance and Economic Sciences, and was secretary of the Bulgarian Economic Society and editor of its journal.

1929, indirectly increased the customs duties on imports, which imposed their change as by the end of 1931 the duty-free import of goods was eliminated for the encouragement of the industry and add value charge of 25% was imposed. Defining the contingents of imports and trade agreements concluded in 1932, resulted in the reduction of dutiable imports as the total duty percentage fell to 21% in 1935 (Berov and team, 1989).

Table 1.
Customs tariff changes
in the Balkan countries



Source: Berov and team (1989), pp. 41-43.

During the Great depression, a distinctive feature of international trade was the protection of the national economy. Increasing of the customs tariffs and restrictions on imports through quotas, state monopolies, etc. were more and more applied. The policy of protectionism in international finance was demonstrated by the conclusion of cambial agreements under which countries agreed on exchange rate of their currencies.[28] The new tools of the customs policy restricted free international trade and reorganized the economy in favor of protectionism. Each country was aiming to compensate the losses borne on the international market through their domestic market (Yankov, 1935).

According to many economists, contemporaries of the Great Depression, the classical economic theory of laissez-faire pricing had failed and required revision.

[28] Because most countries adhered to the gold standard, they preferred that form of payment instead of paying their obligations in gold

Price increasing became the priority of the economic policy of Bulgaria, as the most popular form of state regulation of prices was the establishment of monopolies for the purchase and export of agricultural products.

Bulgarian economists, coeval with the period of the Great Depression tried to justify theoretically the policy of protectionism. Konstantin Bobchev[29] criticized the classical theory of free trade, which was based on the labor theory of value. In his opinion there are several presuppositions which make it inapplicable for the real life conditions, such as lack of mobility of the production means, differences in ratio between the labor and capital, labor skills improvement, etc. It was necessary to create a new realistic theory based on protectionism instead on the classic free trade. The implementation of that task, according to him, would vindicate the theory to the economic practice (Bobchev, 1935).

Bobchev carefully considered his protectionist theory and armored it with a number of new facts, in particular the high unemployment and non-utilization of production factors, a new type of theoretical model substantiating the need of protectionism. Thus, Bobchev’s theory came also as response to the Great Depression and unemployment increase. Bobchev clearly outlines the role of protectionism in overcoming unemployment, and he could be interpreted also as Keynes’ follower whose theory he knew well (Blancheton and Nenovsky, 2013).

Bobchev introduced the protectionist theory of the Romanian professor Manoilesku in Bulgaria. According to him, the classical theory of free trade and the international division of labor had failed because of wealth increase in the industrialized countries, while agricultural countries remain poor. The backward agricultural countries needed industrial protectionism so that the “productive forces” of agriculture, which was of low productivity, could be directed to the industry that had a higher output (Bobchev, 1933).

Problems in Bulgaria differed from those in the industrialized countries, as overcoming the slow economic development was of utmost significance, rather than “eliminating the disadvantages of irrational and inharmonious development.” Economic life rationalization, according to Bobchev, was the task of the state. The accelerated pace for Bulgaria to overtake European countries required government participation and intervention in the economy. Its participation, according to Bobchev, was explained as follows:

- establishment of institutions and infrastructure construction that had already existed in the other European countries

[29] Konstantin Bobchev (1894-1976) studied in Sofia and St. Petersburg. In 1924 he defended his PhD on the theory of marginal utility (Freiburg). He was secretary of the Bulgarian Economic Society and professor at Sofia University.

- inability of the private initiatives to meet public needs / education, health, etc.. /

The greater state intervention compared to the other European countries Bobchev explained in the following way:

- private economic relations in Bulgaria were not at European level, that had been established and evolving for a long period of time. That was the reason why the Bulgarian entrepreneurs did not have the experience, initiative and insight of the European ones.

- Bulgaria was an agricultural country with many small farmers who could not modernize their farms to "... improve their production to comply with the current situation, to organize the sale of their products." Suitable for the Bulgarian conditions was the cooperative farming which should be implemented by the state. The small-scale industry in Bulgaria imposed protection against the competition of the industrialized countries. Organization of the trade by the state was "especially important" because the export was executed by foreign traders as the Bulgarian traders do not possess the capital for "serious export trade". (Bobchev, 1930)

The economic intervention and participation of the state, according to Bobchev was hampered by: political interests which come above the business ones and favored individuals, shortage of skilled personnel in the public administration, the lack of a coherent economic policy. A relationship existed between the resources available to the state to conduct its economic policy and the level of development of the economy. The more material goods the national economy produced as a result of proper economic policy, the more means the state had to implement its policy (Bobchev, 1930).

Bobchev makes an attempt to create a new economic theory on international trade aiming ambitiously at uniting classic exchange theory from which the free competition can be preserved and the labor theory removed with the one for the production means, which according to his opinion have concrete form of labor, land and capital and can undergo quantitative and quality changes. Production means can have negative and positive development which can be related to sacrifices /outcomes made and lost benefits/ or without sacrifices - this is the distinction which Bobchev believes to be his major achievement (Nenovski and Penchev, 2013).

Andrey Lyapchev[30] is among the few Bulgarian economists defending the liberal economic policy. In his opinion the interference of the state in economic activity is

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[30] Andrey Lyapchev (1866-1933) was prime-minister of Bulgaria for the period 1926-31. Author of many books, studies and articles on economic theory and politics, he was one of the founders of the Bulgarian Economic Society and its chairman from 1925 to 1933

undesirable: *"In every aspect where the state defines the prices the production does not operate and let this fact be a focal point for everyone who so light heartedly promotes the idea about the state buying and selling"*. A liberal economic policy is the only thing which can take the economy out of the status of crisis ("*The freedom mode is back and today we can state a huge production of grain in our country*") and free market directs the resource allocation in the most rational way. Bulgaria being an agricultural country, producing different crops has the advantage to direct the agriculture production to the most profitable direction: "*An agriculture crop which is not profitable will be replaced by the Bulgarian farmer by another one. This is the normal way to be and this is probably what is going to follow*". According to Lyapchev, the liberal economic policy provides cheap life while the social state makes living more expensive and leads to production decrease. Unweight social policy "*causes catastrophes not for natural and objective reasons but because of the interference of the state power, and these catastrophes are most fearsome*". Lyapcev as all the rivals of protectionism argue that it keeps the prices high which damages the consumers' interests (Lyapchev, 1930).

After the beginning of the crisis in 1929, all countries increased the state control over their economy with the aim of preserving the equilibrium of the balance of payments and the stability of the national currency. Economic policy of protection was carried out, so that even industrial countries such as Germany, France, Austria and others that were the main market of the Bulgarian agricultural products, protected their agricultural production. At the same time, agricultural countries, including Bulgaria, patronized their industry operating primarily with its own raw materials (Kalinov, 1933).[31]

The application of protectionism restricted the international trade and lead to autarchy where the countries satisfied their internal demand by utilizing their available resources. The reason for the deepening autarchy, according to Dimitar Kalinov,[32] was the discrepancy between the prices of agricultural and industrial goods that could not combine the interests of the countries in which the industrial production was prevalent with those of the agricultural produce. The failure of the London Conference (1933) also postponed the solution of this problem in international trade. The volume of world foreign trade in 1935 had decreased to 34 percent compared to the volume in 1929, with some movement in the national

[31]According to the *Law on Encouragement of Local Industry* and the *Act on Cartels and Monopolistic Prices Control* the industrial enterprises were obliged to buy local raw materials at prices set by the state (Kalinov, 1933).

[32] Dimitar Kalinov - Bulgarian economist, member of the Management Board of the BNB, Chairman of the Bulgarian Foreign Trade Bank

economy. The industrial production index had risen in the industrialized countries and the unemployment index had dropped. According to Kalinov the policy of autarchy had positive results, as reference could no longer be made about global economic conditions, as each country separately went out of the crisis depending on the specification of their national economy. Government intervention through regulation of import and export of goods and currency, of value of the national currency, through encouraging specific sectors, etc. contributed to the economic upturn (Kalinov, 1935)

The unsolved international political issues were underlying the crisis. Each nation implemented the autarchy principles and had to mobilize its economic forces to resolve the problems of its national economy. The global crisis in the 1930s divided the world into economic camps. In parallel, globalization of the world economy was present and therefore it was necessary for the European countries to encourage integration: "*There was a tendency of striving for the establishment of United States of Europe*" (Kalinov, 1935, p. 288).

The economic policy of autarchy had been analyzed by Alexander Tsankov[33], too. According to him, the countries that had lost the First World War needed that policy to reorganize their economy, but with the population growth and the technical progress, self-isolation was impossible for an extended period of time. Autarchy was a temporary system for the revival of the economy in "critical times" achieving a balance and adjusting the economic policy of capitalism, which in the opinion of Tsankov, had divided the world into industrial and agricultural countries: "*It created conditions for the industrial countries to get reagrarianised and the agricultural ones to get industrialized*." (Tsankov, 1940).

The policy of autarchy continued to the end of 1930s, when the raw materials prices rose, thus affecting the industries of countries that did not have their own raw materials. The international trade of raw materials from non-agricultural origin increased, the steel production in 1936 was by 12% higher compared to 1929 /that production was one of the most seriously affected during the depression, as it reached its lowest values in 1932, when it was produced hardly half of the output in 1929/ and that of oil by 22 percent. Bulgaria, which had not have much disposal of enough raw materials, according to Hristo Peev, could expose its economy to "*severe hardship*" and there it is necessary to establish a plan for "*exact*" justification of production meeting the needs (Peev, 1937, p. 150).

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[33] Alexander Tsankov (1879-1959). Bulgarian economist graduated in Munich. Professor and lecturer of political economy at Sofia University, he was member of the Bulgarian Economic Society, and became Prime Minister and Chairman of the National Assembly of Bulgaria.

According to Asen Chakalov, the government intervention before the Second World War (1939-1945) was levied by the lack of private capital and the major role that the state had to increase industrial and agricultural production. That intervention consisted in promoting and maintaining high prices, as the state had never had complete control over the economic activities. After the war began theories of planned economy and a general management plan for agricultural and industrial production and trade regulation were imposed (Chakalov, 1939).

The Bulgarian economists supported the applied policy as it was temporary and protected the native economy through the economic crisis. Interference of the state was justified by the backwardness of the Bulgarian economy, as they believed that competition and free market could not provide economic growth. The origins of protectionism in Bulgaria, like in other countries, were not theoretical. Its aim was rather to resolve short-term urgent problems. What is more, the reasons for the deepening of protectionism in Bulgaria during the Great Depression are similar to those of other peripheral countries, namely unsolved international political issues, drawback of economic development, low degree of industrialization, etc.

Forms of protectionism and their application in Bulgaria

Administrative protectionism imposed by the Bulgarian National Bank

Despite the stabilization of the lev, the years 1928-29 were unfavorable for the Bulgarian economy, because of the poor crop in 1928 and the long winter. The danger of deterioration in the trade balance and the reduction of foreign currency reserves, forced the Bulgarian National Bank (BNB) to refrain from complete freedom to trade with bills payable in foreign currency and in July 1929 it was passed the *Act on Trade with Means of Payment in Foreign Currency*,[34] that retained the control of the bank on import and export of currency. The regulations to the Act allowed free trade in currency amounting to 100 thousand levs, as it had to be stated to BNB the needs for which the currency was required. In fact in 1929 the foreign currency gold standard was implemented only partially, and after two years due to the global economic crisis BNB had full control over the trade with means of payment in foreign currency (Hristoforov, 2010).[35]

[34] *Official Gazette*, n° 72 (01/07/1929)

[35] In October 1931, amendments to the *Law on Trade in Foreign Means of Payment* were voted with which Bulgaria actually waived of its golden foreign currency standard, as the powers of BNB were increased, which had already control over all transactions in foreign currency (Hristoforov, 2010).

BNB supervision of trade with foreign currency caused the payment settlements through private compensations and clearing agreements. In 1932, Bulgaria executed clearing agreements with Austria, Switzerland and Germany and later with other countries. In 1933, private compensation offices were established at the industrial chambers as BNB allowed obtaining premium over the official fixed exchange rates. Since 1930 the value of exports in Bulgaria decreased and imports increased, which required the defining of *contingents* - imports of all goods were subject to the prior permission of BNB for each particular transaction. That system of payment further reduced the revenues in foreign currencies in BNB, which strengthened additionally the currency control. In the absence of foreign currency only partial payments on the concluded foreign trade transactions were made and many countries which were in trade relations with Bulgaria blocked the Bulgarian exports. Bulgaria was forced to enter into clearing agreements,[36] since other countries determined the contingents of the Bulgarian exports.

The defining of the import contingents and using of private compensation deals was related with the officially introduced currency premiums that had an effect on the external value of the lev. In 1936, these premiums amounted to 35% on the parity rate of gold coins. Through currency premiums, the purpose of the state was targeting the exports to countries where there was gold standard and from which BNB could get stable currency convertible into gold or other stable foreign currency. By overestimating the German mark and underestimating the Bulgarian lev, BNB has reduced the proceeds of "*stable foreign currency*", since 1934, and directed foreign trade entirely towards Germany (Hristoforov, 2010)

BNB sustained import contingents up to 1939 as the state regulation of the foreign trade enabled the country to maintain a positive balance of payments in order to meet the payments on its internal and external obligations. Despite the larger volume of exports in 1939, compared to 1929, its value remained smaller because of the low commodity prices and domestic purchasing power per capita was 5% lower than in 1929 (Team, 1983).

The economic crisis had dangerously increased the number of borrowers who could not repay their loans. That put the entire financial system at a stake. In the

[36] Clearing was executed through BNB and the central banks of other countries. BNB opened clearing account entering in it the value of imported goods, the same account was opened also at the central bank of the country in which Bulgaria exported goods, as both banks issued orders for the amounts to be paid to the importers and exporters. Clearing agreements ensured BNB a minimum percentage of free foreign currency to meet the trade and financial obligations to the countries with which the country did not have great exchange of merchandise (Piperov, 1935).

spring of 1932 the Bulgarian National Assembly passed three laws[37] (on the protective concordat, on the relief of debtors and on protection of the farm-owners), aiming to alleviate the situation of the debtors, but according to BNB annual report for 1932, they had a "*negative impact on the loans in the country*" (Hristoforov, 2010, p. 399). Although improving the situation of debtors, these laws "*emerging as a consequence of the economic and credit crisis of 1929-31*" almost ceased new lending by banks and blocked much monetary resources as they "*jolted*" the credit in the country "*fundamentally*".[38] Many solvent borrowers began to repay their liabilities irregularly, the confidence of depositors was reduced and they began to withdraw their deposits from the banks as in September 1933 the amount of deposits withdrawn reached "*alarming dimensions*" that imposed legislative settlement of the matter (Hristoforov, 2010, p. 401).

During the Great Depression, the country was facing a debt crisis and the confidence in the banking institutions was important for its credit policy. BNB imposed control both on public[39] and private banks, credit cooperatives, etc. In 1934, a Decree-Law was passed on relief of debtors and strengthening of credit.[40] In line with it, a Repayment fund was created at the General Directorate of Government Debts that became an intermediary between borrowers and lenders, as all private liabilities were converted into government ones. The law incurred losses to nearly all banks that were forced to convert part of their granted loans into bonds of the Repayment fund[41] at an interest rate of 3%. The Bulgarian Agricultural and Credit Bank[42] and agricultural credit cooperatives were particularly affected due to the nature of their credit - agricultural loans were less liquid and the debtors were less solvent - "immobilized" the largest share of their loans in bonds treasury as their market rate was extremely low and any attempt for their free market realization would lead to great losses (Hristoforov, 2010).

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[37] In 1933 these laws were combined into a single Act for the relief of debtors and loan consolidation (Hristoforov, 2010).

[38] Hristoforov noted that these laws were not very popular among people and the applications submitted under the Law on Protection of the Farmer-Owner were only 34 000, i.e. insignificant number in relation to the debtors in this category.

[39] State-owned banks in Bulgaria in 1930 were Bulgarian Agricultural Bank and Bulgarian Cooperative Bank, which in 1934 merged into Bulgarian Agricultural and Cooperative Bank.

[40] *Official Gazette*, n° 103 (07/08/1934).

[41] The Bulgarian Agricultural and Cooperative Bank owned 36% of the issued bonds by the Repayment Fund, followed by individuals with 30%, agricultural credit cooperatives - 15%, popular banks - 12%, private banks - 7%, BNB - 0,6% (Hristoforov, 2010, p. 405).

[42] The debts of Bulgarian farmers in 1932 were 8 billion levs, as 4 billion was the liabilities to private creditors, of which 2 billion to the Bulgarian Agricultural Bank (Yanchulev, 1933).

During the Great depression the protectionist policy enforced by BNB managed to preserve the stability of the Bulgarian lev. The country could pay its international debts and, thanks to the administrative protectionism of BNB, not to lose trust in the credit system.

Agricultural Protectionism – Monopolies with State Participation

Bulgaria produced and exported mainly agricultural products, thus customs protectionism of agriculture was of secondary importance until the Second World War (1939-1945). The demand for agricultural products in the country was satisfied and that made their imports uncompetitive, even with low prices. However, the customs duties on import of grain after 1930 were 50% on the price, and other agricultural products reached 30% (Berov and team, 1989).

The price increase of agricultural products was a major priority of the economic policy and one of its tools was the creation of monopolies with state participation. The low grain prices during the 1929-30 economic crises caused the intervention of the state and in 1930, a Directorate for the purchase and export of grains[43] was established.[44] Its main objective was to maintain high prices for agricultural products. Farmers used to receive part of their payment in tax bonds which redeemed their tax obligations to the state. Tax bonds were stopped in 1932, when a tax on flour, bread and pasta was imposed, in order to cover the losses of the Directorate. Despite the good harvest and the resulting surplus, cereals prices during 1930-31 remained relatively high compared to the world prices,[45] and the loss of the Directorate was covered by the State, while a special fund named "*Covering the losses of the Directorate for the purchase and export of grains*" was established, in 1932. As a consequence, the price of bread for the urban population significantly increased.

In fact, the Directorate was paying the farmers in lev with a parity price lower than that of international markets. For the various agricultural crops purchased by the Directorate the ratio between bonds and lev was 75% to 25% (Kanev, 1933). The

[43] The Directorate renamed "Hranoiznos" since 1934.

[44] A monopoly on grain was established immediately after the end of World War I (1914-1918) during the administration of the Bulgarian Agricultural People's Union when Law on Grain Trade was passed. According to this law, foreign trade of grain was carried out by a consortium with the participation of the Bulgarian National Bank, the Bulgarian Agricultural Bank, the Bulgarian Cooperative Bank and the Bulgarian Agricultural Cooperative Offices. The aim was to support the farmers by eliminating middlemen and by increasing the purchase prices (Yanchulev, 1930).

[45] In 1931, the Directorate used to buy wheat at 4 levs/kg in Bulgaria, while the international market price was 2.60 levs/kg (Madrov, 1939).

farmers reluctantly accepted the Directorate tax bonds because they could not utilize them to purchase the necessary industrial commodities. In parallel, the issued bonds reduced the tax revenues for the State.

During the period 1930-32, the Directorate ended at a loss of 750 million levs, which was covered by the state budget. However, thanks to the issued bonds the State managed to collect almost uncollectible taxes from farmers by ensuring them an income of 5.5 billion levs in 1930-36 and providing the necessary grains in case of natural disasters. After 1933, the Directorate realized profits for 1933-35 in the amount of 261 million levs, and after 1939 it established a complete monopoly on grain trade (Madrov, 1939).

The Bulgarian pricing policy was pursuing different goals, such as maintaining high purchase prices of technical crops increasing their production (cotton, linen, hemp), or forcing the Bulgarian industrial enterprises to work only with local materials. The high price of wheat maintained by "Hranoiznos" Directorate aimed to preserve the purchasing power of farmers and thus to ensure their existence through increased final consummation prices of bread (Nedkov, 1940).

In the early 1930s, the State assigned the Bulgarian Agricultural Bank to buy sunflower, rose oil, cocoons and tobacco. It was the same for hemp and cotton, in 1934. The prices at which the bank bought the agricultural products were fixed, set by the state and were higher than the international prices.[46] After 1935, the purchase of these goods was also assigned to "Hranoiznos" Directorate (Madrov, 1939). State monopolies were established on alcohol, tobacco and salt, and, in general, their aim was to increase the budget revenue by raising the prices of these goods.[47] Also, the State determined the price of commodities such as flour, salt, brown bread, gas, coal, sugar, etc., through the *General Commissariat of Food* (Chakalov, 1935). In 1936, the *Law on Food Supply Relief and High Prices Reduction* was amended and it entitled municipal commissioners on food supply to fix locally the prices of bread, flour, meat, vegetables, dairy products, sausages, fish and poultry. In general, fixed prices during the 1930s aimed to maintain a low level of rates of imported and manufactured goods for the domestic market and a high level of the exported goods.

In Bulgaria, the state monopolies purchased more than 50% of the grain crop in the country, considerably more than the rest of the Balkan countries (in Greece the

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[46] In 1932 the Agricultural Bank purchased 500,000 kg of tobacco from 1931 crop and almost all crop of cocoons and rose petals (Kanev, 1933).

[47] The monopoly on spirits and plum brandy lasted less than a year. The monopoly on tobacco also survived a year, and due to the high prices for tobacco purchases it ended with a loss of 2 million levs. A similar situation occurred with salt too.

state purchased 42% of the wheat and in Turkey 12-15%).The difference between external and internal prices of the grain was also higher, even if the farmers cannot cover their production expenses because of the backward nature of local production (Berov and team, 1989).

Unlike the industry, the protectionist measures in agriculture have only temporary effects. This policy burdened the state budget but did not provide competitiveness for the Bulgarian agriculture on the international markets delaying its necessary modernization. Nevertheless the agricultural protectionism managed to protect from bankruptcy the major share of the Bulgarian population, that of the farmers.

Protectionism in the Bulgarian Industry

Bulgarian industry was underdeveloped and most of the industrial goods were imported, as local production was not able to meet the demand. Although the economic crisis had reduced the prices of raw materials, the prices of industrial goods remained high. In such a context, and in order to enable the farmers purchasing industrial goods, the *Law on Food Supply Relief and High Prices Reduction (1930)*[48] had as a main purpose to reduce their prices. The law implementation was assigned to the Ministry of Interior. The following year, an *Act on Cartels and Monopolistic Prices Control*[49] was voted the implementation of which was entrusted to the Ministry of Trade (Kanev, 1933).

Protectionism of the industrialized countries in the early thirties of the twentieth century increased the prices of imported raw materials by Bulgaria. Lack of foreign currency for import of expensive raw materials forced Bulgarian industry to introduce new productions with Bulgarian materials. The increased demand for raw materials for domestic industry directed the Bulgarian agriculture to intensive growing of industrial crops such as cotton, linen, hemp, peanuts, etc. as some of them completely replaced the foreign imports. The state had to organize the emerging industries and lead the farmers to produce the necessary raw materials (Ganov, 1939).

The establishment of state-owned industrial enterprises with funding from the budget was an expression of protectionism. These companies were financed by the State; they did not pay taxes and duties, and did not account for depreciation, thus they could produce and sell at lower prices. In Bulgaria, the public sector cover the

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[48] This law was a complement to the already existing *Law on Food Supply and High Prices Reduction* of 1924 that was amended in 1932 and existed until the beginning of World War II (Svrakov, 1942).

[49] *Official Gazette*, n° 220 (23/12/1931).

railway transport, coal-mining,[50] much of electricity generation, shipping, etc., and in 1938 there were 114 state and municipal enterprises (Berov and team, 1989).

The economic crisis caused overproduction in various branches of the Bulgarian industry. In 1930, the Ministry of Trade declared that in these industrial branches no “benefits” would be acquired under the *Encouragement of Industry Act*. The Industrial Council at the Ministry of Trade & Commerce expressed an opinion on the basis of a survey made by the Union of Industrialists according to which there was a “surfeit” in the production of sugar, vegetable oil, alcohol, knitwear and more. In 1931, the government changed and the new ministry rejected the principle of “surfeit”. The next government passed a *Decree for Legalizing Industrial Establishments* (1935) in which the principle of “surfeit” was imposed in an extreme form. Indeed, the creation of new industrial enterprises and the expansion of existing activities were not permitted, in the industries which had been declared to be “surfeit” for the country or the district. According to Georgi Svrakov such economic policy restricted competition and left branches with overproduction, as enterprises price policies were not well managed. Thus the economic policy based on the “principle of surfeit” in Bulgaria was not placed on the “safe side”. (Svrakov, 1938)

Government regulation increased after the adoption in 1936 of the Law on Industry, that empowered the Council of Ministers to prohibit the establishment of new and expansion of existing industries. This was also an attempt to prepare the economy for an eventual war in a context of autarchy (Bobchev, 1940).

Protectionism had a beneficial impact on the Bulgarian industry and in 1938 there were already 1100 large industrial factories and 8000 smaller ones producing for a value of 7.5 to 8 billion levs. The industrial production index in 1938 rose to 155.4 (100 in 1934-35), which created an opportunity for increased employment. The number of people employed in industry rose from 98,477 in 1936 to 113,413 in 1938, while for the same period the number of people employed in agriculture had increased by 89,000 (Ganov, 1939). The employment and weight of the large-scale and processing industries had also grown. The income and employment in crafts was higher than in industry until 1931, but a few years later the situation had changed. By 1939, people industry employed 8,326 more than crafts and the real income generated by the industrial activities was 1,285 million levs greater than that of crafts (Chakalov, 1946, p. 78). Meanwhile, the positive results of the protectionist policy weakened during the economic crisis. Only fall of the decline of some branches was compensated by the increase of production in others and

[50] Bulgarian state railways were state- owned under the Act of 1885 (Golden Almanac of Bulgaria, 1940, p.766). The mines “*Pernik*” were state-owned by the 1890s (ibid p.807).

exports were limited. The prices of the industrial goods remain high and the privileges to the favored industries lead to losses for the state budget.

Conclusions

As in other countries, protectionism deepened during the 1930s and took various forms. This policy was almost unanimously promoted by the Bulgarian economists, contemporaries of the Great Depression. From their point of view, even if protectionism often did not lead to good results, it was temporarily necessary in order to stabilize the economy during the economic crisis. Indeed, protectionism in Bulgaria did not differ significantly from what happened in the other Balkan countries, and although it did not resolve structural problems, it had been a way to secure the survival of the Bulgarian economy during the economic crisis.

Due to the shortage of capital, the Bulgarian industry had always benefited from protectionist measures which enabled some development. Meanwhile, in the early 1940s, industry was still uncompetitive on the international markets, irrationally organized with higher production costs and high prices. What is more, protectionism reduced consumption and the price scissors between the industrial and agricultural goods were maintained.

The economic difficulties favored protectionism for agriculture as well, while this sector did not require government intervention before the agrarian crisis of 1929. Bulgarian farmers were the largest social group in Bulgaria and the most heavily affected. Their difficulties were transferred to the banking system, as they could not pay their debts to the banks and to the state. Thus, given their low productivity and poor technical equipment, agricultural protectionism became unavoidable during the Great Depression.

The laws passed in 1933 heavily impacted the banking system. However, the control imposed by the Bulgarian National Bank, managed to restore the confidence to the credit institutions and to preserve the stability of the lev. Under the conditions of restricted international commercial flows, external trade controls, aimed to safed the necessary commodities and raw materials for consumption and production, protecting the Bulgarian economy from low price imports and speculation.

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