Small States' Responses to the Great Depression: A case study of Bulgaria

Parallels between the financial crisis of 2008 and the Great Depression usually compare their causes and economic effects. This paper looks at the institutional effects of economic crisis on small states. Faced with severe economic hardship in the 2008 financial crisis, small states such as Hungary, Iceland, Ireland, Ukraine, and recently Greece and Portugal had no choice but to resort to a rescue financial package extended by the international financial institutions at high interest rates and conditioned on the adoption of severe austerity measures. This situation presents a shift of political power from the national governments to the international financial institutions. Simultaneous political weakening of the state *vis-à-vis* the IMF and the ECB and strengthening of the state *vis-à-vis* the society whose opposition to the austerity measures is being ignored in a depoliticized expert-lead and non-transparent manner of decision-making[1]. As Peter Mair points out on the extreme case of Ireland the governments stop acting as domestic agents but as agents of international financial interests and European bureaucracy.

During the Great Depression and the collapse of the world trade system in 1929 no such pooled financial resources were available either from a foreign government or an intergovernmental institution. Many countries in the European periphery had debt obligations beyond their means to pay and saw increased exports as the only way to secure the hard currency they needed. This road is profoundly different from the one taken in today's conditions not only because the fiscal tools of economic policy were largely underdeveloped in the 1930's as compared to today. It was different because in its efforts to promote exports governments acted as agents of their national economic interests rather than promoters of foreign authority. Small states were externally dependent on their main trading partner but in centralizing and administering this dependence their governments pursued a national interest understood as the interests of domestic groups such as exporters associations legitimizing their policies in light of economic nationalism.

The similarity between the Great Depression and today's crisis is that in both cases small states became decisively dependent on foreign power while at the same time

[1] See Peter Mair's talk on the case of Ireland, presented at Central European University http://pds.ceu.hu/node21922

strengthened their monopoly over economic decision-making *vis-à-vis* the society. While in the current context this can be seen as decreased democratic efficiency in the context of the 1930's, when democracy was largely replaced by authoritarian rule, the institutional effects of anti-crisis measures can be traced as change in the model of capitalism. My research question is how did the governing rules and institutions change in the small states as a result of the simultaneous external loss of authority and internal strengthening of state's control following the Great Depression. The hypothesis this paper explores is that main effect is the emergence of state corporatist structure. The paper explores this hypothesis on the case of Bulgaria, using archival sources such as statements and correspondence between interest groups, exporters associations and the government as well as the central bank and the state export agency archives.

Bulgaria is chosen as a case study because it fits the definition of a small state below and because it experienced both external loss of authority and internal strengthening of state monopoly control in the studied period. In the aftermath of the depression this agricultural country on the European periphery, suffered declining revenues from exports and diminishing foreign reserves. In addition its post-WWI reparation burden put pressure on its national currency, the lev. In order to avoid devaluation of a recently stabilized monetary unit, Bulgaria introduced exchange control in 1931, which opened the way to intensive bilateral clearing trade with Germany. This monetary and trade regime put the state in the driving seat of the economy through monopoly control over all foreign exchange transactions and international trade. Between sixty and eighty percent of total trade of Bulgaria was with Germany with a predominantly positive trade balance for the entire period until 1944. Under bilateral clearing this meant that Bulgarian revenues from export were not paid in convertible currency but kept in blocked accounts at the German central bank, which could be used only for government-approved counter-purchases in Germany. In managing these frozen accounts the Bulgarian national bank (BNB) made efforts to stimulate the domestic economy while allowing it to become heavily dependent on German purchases and deliveries. The state gave up international authority to Germany and simultaneously became a powerful agent of domestic economic interests.

The paper proceeds in four parts, part one gives a working definition of small sates in the framework of the theory of hierarchy in international relations; part two elaborates on Bulgaria's relations with Nazi Germany and its increased dependence on trade with it;

part three presents evidence of the emerging state corporatist structure as the main institutional effect of external weakening and internal strengthening of national political power; part four concludes.

I. DEFINITION OF SMALL STATES IN HIERARCHICAL RELATIONS

The paper defines small states in terms of economic and political "size". Smallness does not refer to size or population but to the degree of influence on the international political arena and the degree of economic resources available to policy-makers. In terms of monetary policy small states are not issuers of main currencies and do not perform lending functions nor do they design the international monetary system. In terms of international trade they are price-takers not price-givers due to the relatively small amount of their exports as share of world exports.

In the context of political institutions small states are rarely found at the forefront of institutional innovation, rather they emulate the good practices of the leading countries as best as they can. They are recipients of international regimes, that is they comply with the rules of international exchange advanced by big states and have very limited power to influence politics outside their borders or the outcomes of international negotiations. While in economic terms small states are vulnerable due to insufficient resources in political terms they are vulnerable to institutional change imposed from abroad or their domestic institutions are more dependent on external factors.

As a result change is another symptom of political smallness. Small states in general do not have the capacity to isolate themselves from shifts in hegemonic power or to avoid taking a side in military conflicts. For example the twentieth century history of Eastern and Central Europe has seen a variety of political regimes from multiethnic empires, to nation states of monarchic, authoritarian, communist and democratic kind brought about largely by changes in hegemonic power rather than truly domestic revolutions. At the same time big and influential states experience as a rule long periods of stability of political institutions, the foundations or modifications of which were introduced through internal social process. Such examples are the USA, France, Russia and Britain. After the collapse of the Soviet Union Russia has substantially diminished its authority abroad and thus became to look more like a small state on the global arena. However it is still not receptive of any foreign authority over its internal affairs. Small states are only those that accept foreign authority and that do not have sufficient influence abroad.

Unlike economic "size", which can be measured in terms of quantifiable criteria such as GDP per capita, political "size" is defined by the context in which it is exercised or in the course of a relationship between two countries or a country and an international institution. The literature on hierarchy in international relations provides a suitable framework for analyzing relations between a small and a powerful state for two reasons. It does not focus on the international system but on the relations between its units, a focus on process rather than structure. It uses a much realistic assumption that state autonomy is divisible and while formally and legally states are autonomous, practically they are limited by other states in their foreign as well as domestic politics. According to David Lake's theory hierarchy defines a relationship of unequal authority rather than unequal power. A hierarchical relationship is not just a relationship between states of uneven distribution of material capabilities and economic resources, but a relationship where the small state gives up certain economic or security autonomy in recognition of a legitimate influence or rule typically this is a trade off between security and economic relations.

Lake provides a set of indicators for security and economic hierarchy and estimates their correlation. Indicators of security hierarchy are 1) the presence of military forces from the dominant state on the territory of the subordinate state and 2) the number of independent alliances possessed by the subordinate state (ibid, 68). Indicators of economic hierarchy are 1) monetary policy authority and 2) relative trade dependence measured as total trade with the ruler/GDP of the ruled (ibid, 68,71). Based on these indicators he defines several degrees of security and economic hierarchy. From low to high security hierarchy he distinguishes between "diplomacy", "sphere of influence" and "protectorate" and from low to high economic hierarchy he defines "market exchange", "economic zone" and "dependency". Combined symmetrically the economic and security hierarchies result in "informal empires" and "empires". (Lake, 2009:53). In an informal empire the "subordinate polity[2] cedes decision-making authority over foreign policy and areas of domestic policy to the dominant state; subordinate polity conducts relations with others on the basis of sovereignty" (Lake, 1999:28). According to this classification the case of Bulgarian-German hierarchical relations is one of a sphere of influence and an economic zone or the combination of the two into an informal empire.

[2] Polities are defined by Lake as «any organized political community that has or could have a history of self rule.» (Lake, 1999:18)

As discussed by David Lake (1999, 2009) and Cooley and Spruyt (2009) the relationship between the domestic structure, understood as both state policies and economic conditions, and the international superstructure, is an outcome of hierarchical relations. This relational approach to power emphasizes the mechanisms of bringing the small states into a position of unequal exchange and economic dependence. "What distinguishes authority from other forms of power is not the result - [small state's] compliance but the mechanism through which power is exercised" (Lake, 2009:21). It is based on expected economic or political marginal gains in the context of a "political struggle as both the ruled and ruler contest at the margin the rights and duties […] of their relationship" (Lake, 2009:20). The degree of hierarchy is defined by "the shift in decision-making authority from the subordinate to the dominant polity." (Lake, 1999:32). "The greater the range of actions of the subordinate that the ruler can legitimately regulate the more hierarchical is their relationship" (ibid, 62).

This set of definitions assumes that a case of hierarchy in international relations necessarily has to comply with at least two conditions. First, the option of choice should be available to the ruled weather to comply with the demands of the ruler or to accept a legitimate negative consequence of non-compliance. Second, the source of authority can only be revealed by tracing the process of interactions and cannot be inferred from the structural position of the small state in the international system. In the case of a small state the availability of choice is not always obvious. Nevertheless, "states are indirectly signaling that they recognize the authority of the dominant state when they fail to make efforts to diversify their alliances and trading partners" (ibid, 76). The following part traces the historical events leading to the external loss of authority and the domestic strengthening of the monopoly position of the Bulgarian state.

II. BULGARIA and GERMANY in HIERARCHICAL RELATIONS

II. 1. Effects of the Great Depression in Bulgaria

The two major effects of the Great Depression on the Bulgarian economy were the outflow of short-term foreign capital and the fall of prices of agricultural exports. Prices of industrial imports to Bulgaria did not fall as much, which created balance of payments problems and downward pressures on the national currency, the lev. From 1929 to 1930 the value of exports decreased to 3340 m levs from 3500 m levs while the quantity of exports increased from 138 000 tons in 1929 to 318 000 tons in 1930[3] (BNB 2004:193). The trade balance was still positive through August 1931, despite the drop in export prices but from September onwards the trade balance started to deteriorate. Export earnings reduced by half between 1929 and 1933 (Lampe 1986). At the same time massive withdrawal of short term foreign capital up to 2 500 million levs depleted the foreign exchange of the BNB (Avramov 1999). Table 1 shows the rapid decrease of foreign exchange reserves at the time of the depression, which caused a considerable depreciation of the lev against gold, expressed in its declining gold coverage.

Table 1. Foreign Reserves 10.1929 - 02.1930

	Gold and Silver	**Foreign Exchange**	**Coverage**
	Million levs*		%
1929			
October 31	1552	1222	42.55
November 30	1555	846	39.74
December 31	1558	911	42.70
1930			
January 31	1566	506	40.22
February 28	1570	352	38.16
Increase (+) or decrease (-) Feb. 28, 1930 compared to Oct. 31, 1929			
	+18	-870	-4.39

Source: BNB (2004) *The Bulgarian National Bank: A Collection of Documents*, the Central Public Records Office, Vol. 4, 1930-1947, p. 189 *The annual exchange rate to the US dollar is 143 levs in both 1929 and 1930.

Even though gold and silver reserves were relatively stable the rapid depletion of foreign currency reserves came up to 870 million levs for five months or about 6.09 million US dollars. In order to avoid devaluation Bulgaria introduced exchange control on October 15th 1931. With another regulation of 17 October 1931 the central bank acquired

[3] The numbers are for the first seven months of both years 1929 and 1930.

the right to stop operations in the foreign currency of any country imposing exchange controls. Export of Bulgarian lev was prohibited, as well as the spending of foreign exchange on import of luxury goods or works of art. Local representatives of foreign companies were obliged to give their foreign currency commissions to the bank; local individuals who had foreign currency could only use it with the permission of the bank and could not purchase new amounts before spending the available ones (Avramov 1999).

This was an unprecedented monopoly of the BNB over foreign exchange transactions but remained a reactive policy of defending the currency rather than a tool of foreign policy. The initial adoption of exchange control in Germany is also seen as a defense of the mark and a comparatively liberal regime where penalties were not as severe and restrictions applied to sums above 20 000 reichsmarks only (Child, 1958). However, in 1933 and 1934, with the implementation of the Nazi four year plan, exchange controls became stricter, penalties for evasion higher and control extended inevitably to trade and other economic relations with foreigners (Ibid). This reorientation of monetary and commercial policy was officially announced in September 1934 by the governor of the reichsbank Hajmar Schacht as the "New Plan". Thus the initially defensive currency stabilization mechanism was transformed into an active regulatory regime mobilizing resources at home and abroad for the upcoming war.

II. 2. Growing German influence in Bulgaria

On June 24th 1932 the German-Bulgarian bilateral clearing and trade agreement was signed. According to this agreement the Bulgarian National Bank opened an account in levs in the name of the Reichsbank and the Reichsbank respectively opened a reichsmark account for the Bulgarian National Bank in Berlin. German importers paid for Bulgarian exports by crediting the Bulgarian blocked reichsmark account at the Reichsbank. German exporters to Bulgaria were compensated from the same account. Payments were to be cleared in reichsmarks between German importers and exporters. What crossed national borders were goods and notifications between the central banks but no foreign exchange. The introduction of exchange control and bilateral clearing in 1932 did not solve the problem of foreign exchange deficiency but prevented further deterioration and facilitated international trade in the absence of international money. The long-term foreign exchange position of the BNB did not improve considerably until 1939 (Table 2).

Table 2. Foreign Reserves, gold coverage ratio and trade balance 1927-1939.

Year	Total Reserves (in mill levs)	Coverage Ratio %	Trade Balance (in mill levs)
1927	13078	28.3	489
1928	12897	31.2	-810
1929	8984	42.2	-1928
1930	9249	37	1601
1931	8620	36.6	1274
1932	7519	35.8	-88
1933	7442	36	644
1934	7278	35.3	287
1935	6549	34.4	244
1936	7158	33.8	729
1937	8196	31.9	34
1938	8250	31.8	644
1939	11677	29.9	868

Source: Statistical Yearbooks of the Kingdom of Bulgaria (1934, 1937, 1941) in Dimitrova, K., N. Nenovsky and G. Pavanelli (2007) p.19.

The 1932 agreement provided that on the last day of each month the corresponding clearing accounts, if not in balance, should be compensated according to the average exchange rate of the Reichsbank in Berlin (Central Public Records Office 285K/5/80). However as the balance was predominantly positive for Bulgaria the German side ignored this clause letting the amount of blocked reichmarks on the Bulgarian account to increase. These assets were legally the property of Bulgaria but their use was at the discretion of the German government. The more Bulgaria exported, the more leverage the Reichsbank had on Bulgaria's supplies of industrial goods and raw materials. The greater the amount of blocked assets, the higher the cots of exiting the relationship. Continued sells to Germany meant continued reliance on imports from it when the German government controlled the license for trade. The importance of Germany as a trading partner was growing both in terms of total trade and clearing trade (Table 3). Bulgaria exported agricultural goods and raw materials in exchange for German industrial goods and later on for military equipment.

Table 3. The share of German imports and exports in total trade and in total clearing trade.

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

Note and source: a – export/import data refer to the first five/four months of the year. Christophoroff, A. (1939) "The course of the trade cycle in Bulgaria 1934-1939".

At the same time the blocked assets also increased and with them the direct German influence on the Bulgarian economy.

Table 4. Foreign exchange balance of the BNB in million levs.

Year	**Clearing**			**Free**		
	Incoming	Expenditure	Balance	Income	Expenditure	Balance
1933	1 689	1 490	+ 199	858	1 038	-180
1934	1 770	1 593	+177	487	684	-197
1935	2 583	2 256	+327	524	525	-1

1936	2 434	2 414	+20	1 221	966	+255
1937	2 644	2 855	- 211	1 336	1 264	+72
1938	4 388	3 577	+811	751	908	-157
1939	9 868	9 415	+ 453	1 491	1 453	+38

Source: BNB Annual report for 1938, BNB Collection of Documents Vol. 4 p 260. and Central State Archive 285K/5/250

It is evident from the tables that clearing did not completely replace free trade. The free currency in the table is partly acquired through sales to free exchange countries and partly through trade in Germany which in some cases allowed a percent of the deal to be transferred in free exchange the use of which was also strictly allocated payments for international transport or the import from Germany of materials it itself imported such as oil. The sharp dynamics of the free account are the result of the trade structure in place. The products Bulgaria exported to the free exchange market were mainly corn, barley, oat, sunflower seed and fodder which are all products of low value added and great supply. For the clearing market Bulgaria exported tobacco, fruits and vegetables, meat and eggs. Lower relative harvest of the free exchange exports versus blocked exchange exports was the cause of a negative balance of convertible currency.

As the theory of monetary power demonstrate, cooperation under bilateral clearing results in convergence of interests between the partner countries. (Kirshner, 1995; Neal, 1972). This is a clear case of hierarchy where the dependence on Germany was not a result of purely economic necessity but of the acceptance of foreign authority over economic policy actively pursued by the government of the small state. The convergence of interests rather legitimized the subordination to Germany and it is the active cooperation of Bulgaria rather than coercion, which facilitates the dependence. At the same time the Bulgarian government was insisting it does not support Nazi ideology and that it is doing business with Germany but politics with France (Markov, 1984). France however had very little economic need for Bulgarian exports and Bulgaria had very limited foreign currency available to make purchases in France. Thus Bulgaria in the 1930's did not only "fail to make efforts to diversify [the] alliances and trading partners" but also actively centralized and directed trade towards Germany.

II. 3. Domestic strengthening of state control

The key aspect of the bilateral clearing arrangement for the small country is how its central bank handled the blocked accounts at the Reichsbank (Neal, 1979). The choices were either to stop exporting until the accounts are balanced or to continue exporting and accumulating blocked assets in the expectation that those will be eventually paid. In the latter case the government of the exporting country has to credit its producers, as they do not receive revenue from the importing country. Neal distinguishes between the expansionist policy of Hungary, Bulgaria and Greece, which refinanced their exporters to Germany in advance of available deposits from importers, and the conservative policies of Romania and Yugoslavia, which waited for the balance to clear. The option of refinancing was only available when a country had an export surplus with Germany and sustained the high exchange rate of the clearing mark. The clearing system in Neal's interpretation "offered them the best means available for financing economic recovery" (Neal, 1979:393). Neal discusses the small states not as passive victims of exploitation but as active policy makers who also manipulated their economies in the pursuit of economic gains.

The way in which German authority influences the advancing monopoly of the central bank of Bulgarian is evident from the central bank's archives. German regulation as early as October 5th 1933 prohibited the private offsetting between importing and exporting companies (Central Public Records Office, 285K/5/164 p. 442-444). In a letter to the BNB the Reichsbank's Directorate explains:

> "In practice the advances received from the export of Bulgarian compensatory goods in Germany can no longer be transferred to a private bank account of the owner of the goods or to a company of his order. Nor can the exporter directly dispose with this sum but all advances have to be transferred to the Reichsbank in the account of the BNB and thus only the latter can operate with the sum. All private compensations are from now on to be channeled through the official clearing accounts" (Ibid).

This shows how a unilateral change in the German regulation triggers a change towards greater centralization and increased state control of the economy in Bulgaria. In an emblematic speech at the Bulgarian Economic Society on December 3rd 1931 Alexander Tsankov, an economist and a former prime minister of Bulgaria described the crisis as "ubiquitous, deep and lasting." Tsankov foresaw the crisis as introducing a possible transition to a new system where state control is the rule. Amidst the uncertainty whether the new system could be communist, fascist or a new kind of capitalist system he stated:

> By looking at life nowadays we can see that the state is increasing its influence and control over all spheres of life. (Tsankov, 1932).

Cholakov (1932) agreed that a stronger involvement of the state was the main outcome of the crisis. The new emerging system can be best characterized as a state corporatist one.

III. STATE CORPORATISM IN BULGARIA 1932-1939

The following part demonstrates that institutional changes in 1930's Bulgaria come close to fulfilling Philippe Schmitter's definition of corporatism and more specifically of state corporatism, namely:

> "Corporatism can be defined as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized and licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports." (Schmitter, 1974, p.93-4)

and:

> "State corporatism tends to be associated with political systems in which territorial subunits are tightly subordinated to central bureaucratic power; elections are non-existent or plebiscitary, party systems are dominated or monopolized by a weak single party; executive authorities are ideologically exclusive and more narrowly recruited and are such that political subcultures based on class, ethnicity, language or regionalism are repressed. ... state corporatism seems to be a defining element of, if not structural necessity for, the antiliberal, delayed capitalist authoritarian neomercantilist state." (Ibid. p. 105)

My analysis focuses exclusively on the organization of the foreign trade sector and does not deal with the changes in the nature of political parties, elections and the position of subgroups in relation to the political process. This is justified by Bulgaria's relative high ethnic, linguistic and religious homogeneity and the lack of well defined classes due to over eighty percent rural population and a very small and underdeveloped industrial sector, taking only five percent of Bulgaria's exports. It is also important to mention that various social, economic and political organizations were functioned in a corporatist manner before the period under review but only after 1934 the central government becomes the main organizer of all aspects of economic activity. These changes are a direct institutional response to changing German rules of foreign trade but they do not lead to a totalitarian state like the Third Reich. Bulgarian societal groups and actors remained much freer from terror in voicing their demands and open criticism to the government, actions for which their German counterparts would be threatened with a concentration camp[4]. Therefore the institutional changes in Bulgaria are not a result of imitating the German model but a national reaction to it. Discussing the question of ideology is also beyond the scope of this paper.

III. 1. The Organization of Foreign Trade in Bulgaria

After the independence from the Ottoman Empire (1878) most of the trade in the new Bulgarian kingdom was controlled by foreign merchants. This changed after the Great War when more and more Bulgarian merchants took on international trade activities and promoted the first projects for improving the organization of trade, quality controls, payment methods, import and export agreements and the customs policies of the state. Until 1934 foreign trade was organized into one traders' association, The Bulgarian Union of Traders, established in 1924 in Sofia, which included all kinds of merchants and operated through local branches in each town. (CPRO 1580K/1/16). In 1934 all political parties and social organizations and in 1935 all functioning trade organizations were banned by law. With Ordinance N. 38 of the Law for the Trade Organizations, the Bulgarian Union of Traders was liquidated. The same law established the singular organization of traders with the name General Union of Bulgarian Traders. This was the first time traders were associated first according to their sector and then into exporters and importers. All exporters' associations were members of the private Union of Bulgarian Exporters[5] (UBE) and the importers of the Import Central[6]. Membership in the Union became compulsory soon after according to the Law for Organization and control of the export.

All matters regarding a certain product were deliberated within the sectoral association, while general questions were discussed at the Central Office of the Union. Such questions were production plans, price policy, securing new markets, transportation, the government's economic policy as a whole, keeping the export sector

[4] See Peter Temin's 1991 comparison of Soviet and Nazi economic planning in the 1930's.

[5] The Union of Bulgarian Exporters includes the associations of exporters of eggs and poultry, tobacco and tobacco products, grapes, fruits and vegetables (fresh and processed), raw and semi processed hides, grain, oil yielding seeds, beans, wine and other alcoholic drinks, animals meat and lard, milk products, rose oil and other ether oils, herbs, animal wastes, coal and ores, crafts and home-industrial products. (Central State Archive 1580K/1/22)

[6] The Import Centrals are shareholding structures, which import raw materials for the industry from various countries. The imports were approved directly by the Bulgarian National Bank.

in Bulgarian hands, access to export credit, freedom of private initiative to find the best market conditions for Bulgarian exports. As stated by its director, Hristo Yotsov,

> "In accordance with the law and the economic common sense the Union of Bulgarian Exports needs to maintain close relations with the government institutions who design and implement all export regulation"(CSA 1580/1/16).

The main state institutions, regulating export were first and foremost the Bulgarian National Bank (BNB), the Ministry of Trade and Industry with its subsidiary the Export Institute (EI), established in 1935 by the Law for Organizing Trade, and all related institutions such as the railways, the post office, customs, public storage facilities, credit institutions etc. In addition the Bulgarian Foreign Service was actively engaged in export promotion. The main organ for deliberation between the exporters, the Export Institute and all other institutions was the General Assembly at the EI.

All exports were organized following a strict hierarchical structure. Various documents from 1935 to 1939 give a good overview of the organizational structure and its principles. The Ordinance N. 435 by trade Minister Kozhuharov of June 14th 1939 specifies the responsibilities of the Export Institute. Its president is responsible for conducting research on the domestic and foreign markets and for promoting the export of Bulgarian goods. The EI in cooperation with the administrations for the forests, waters, scientific and experimental agricultural institutes and the central association of the producers conducts constant quality control. The EI president also supervises sorting and packing the export products, monitors the size of sown land, plant diseases and standardization of the exported produce and cultures.

Directly subordinate to him were a number of inspectors such as the chief inspectors for animal and plant products. "Their first duty is to maintain close contact with the associations of exporters of animal and plant products". Their objective was defined as "all-encompassing assistance of the export; organizing the exporters in mandatory associations and monitoring their activity in and outside of the country. Monitoring the activities of traders not engaged in associations; controls for the allotted to Bulgaria quantities of export goods; planning and directing the export of Bulgarian products to as many as possible foreign markets; organizing the internal marker in accordance with the exports; monitoring the relations between producers and exporters; monitoring the rates of consumption with the aim of preventing its needs being sacrificed to increasing export; researching the possibilities for increasing the competitiveness of the exported Bulgarian items by pushing the prices down but not below their cost of production" (CPRO 259K/2/77). The chief inspector for transport maintained contacts with the Bulgarian State Railways, the ports, the posts, telegraphs and telephone stations and the Ministry of Infrastructure. The inspectors for canning and refrigeration had similar functions, contact with the producers' associations managing and control of the production; assisting the export of nondurable goods; conducting research on new methods of storing and processing fruits and vegetables. (Ibid.)

The tobacco export sector, which was a monopoly structure, had its own director at the EI. He was responsible for relations with the tobacco exporters' associations, the Ministry of Agriculture, Ministry of Finance, Bulgarian Agricultural and Cooperative Bank and the Union of Tobacco Cooperatives (producers). He also had to organize the exporters in a compulsory association and monitor their activity, the domestic market and competitiveness of Bulgarian tobacco abroad; control the quality and quantity of produced tobacco, assisted by the regional inspectors. (Ibid.)

Regional inspectors keeps track of the available for export quantities, they also exercise quality control for products and packaging including the durability and size of carts at the export stations or ports of their respective regions. They inform the exporters about the markets' requirements for quality, sorting and packing; they offer qualification courses and presentations on the administrative requirements of the Export Institute; investigate for ways of improving transportation and logistics, in order to ensure the "correct" price setting in contracts between producers and exporters. They patrol their regions five times monthly and report to the EI, all incoming and outgoing correspondence as well as the quality certificates issued by the regional inspectors were also reported. Further they could not leave their region without the EI's allowance as the April 29th 1939 ordinance N. 381 by the Minister Kozhiharov stipulates.

All these activities were kept secret following the order of the EI president, Kanazirski on Sept 15th, 1938. It was forbidden to all bureaucrats and administrative personnel to give away any information regarding the EI's functions to external or official persons; the subject of their work was considered a professional secret and they took an oath to keep it. Even the beginning date of the grapes harvest was not to be announced before the approval of the president of the EI. He had to approve any articles on the national export policy written by bureaucrats' before they went to print; no one but the president could make any announcements to the press except for the deputy president in his absence and even those had to be approved by the Minister.

The commercial attachés at the Bulgarian embassies abroad were the key intelligence unit in the system of trade organization. Working for the same general objective, increasing exports and acquiring the best possible prices for them, they had the task to investigate the foreign markets and the opportunities for placing Bulgarian products in view of demand, prices, the market's capacity, consumption, competitors from other countries, administrative organization of the market in the country, the allowed import quantities from Bulgaria and the provisions of existing clearing agreements. They also had to work by diplomatic means for the reducing of red tape, acquiring quick access to the market and to signal timely about any possible threats. They provided quality control of imported Bulgarian goods, monitoring and patronage of all Bulgarian (organized and individual) exporters and maintain good relations with local trade authorities as well as promoted the "invisible export", tourism of foreign citizens in Bulgaria.

The detailed instructions for conducting commercial espionage, provided by the director of the EI, are completely in line with the market logic except that the government is taking the role of international business manager. The documents identify commercial propaganda as the most powerful marketing tool and encourage using all friendly contacts abroad - journalists, artists, sportsmen and other public figures to promote the Bulgarian brand. The president of the EI emphasized that the Bulgarian goods were new and unrecognized on the European markets, therefore it takes special efforts to secure market share for them. All correspondence between the commercial attaché and interested Bulgarian exporters was copied to the EI and otherwise kept confidential. All private commercial activities of the Bulgarian officials abroad or through them on behalf of third parties were prohibited in order for conflicts of interest to be avoided. Finally, the president emphasizes that even though the EI is a state institution the commercial advisers should keep in mind that "trade tolerates no bureaucratism". The foreign commercial service should be extremely "efficient, flexible and accurate" because only then could the great expectations of the state and the national economy be fulfilled by the Institute" Kanazirski, May 1st 1936.

Exporting as much as possible to as many as possible foreign markets was no doubt in the interest of domestic firms. They followed an order of export where each firm's quantity and timing of export followed a schedule. For example grape exporters to

England[7] were ordered according to their exported quantities in the previous year, the biggest have priority and the list goes on to the smallest exporter. This order was announced in advance for every day of the week each week. Giving up the export allowance to another company as well as re-export from other countries was not allowed. Grapes were exportable on the free market against convertible currency therefore the state was especially careful not to miss an opportunity for export. If a company was unable to deliver all the allowed quantity it had to inform the EI or it could be sanctioned. As ordered by minister of trade Vylev on November 17th, 1936 when exporting grapes to Germany under clearing deals were signed with the clause "valid only after the approval of the EI". The EI set the minimum export prices for these goods, checked and registered the invoices and only after that the BNB issued declaration N11 for export. The same was valid for strawberries.

Due to the increasing assets in the blocked account in Germany an amendment of the Law for Trade in Foreign Exchange, was passed by the Managing Board of the BNB and approved by the Ministry of Finance October, 24th 1939 ruling that all exporters request the permission of the BNB by declaring the kind, quantity and value of their export goods and specifying the method of receiving their payment. Export permission for a period set by the bank was granted by issue of declaration N11 for export in three copies, one of which was a necessary document for the customs office. Prior to the amendment declaration N11 was required only for certain products. (CPRO 1580K/1/29)

Export controls were detailed and meticulously applied. A ministerial ordinance was issued to set the size of the barrels in which plum pulp was exported and the kind of wood they were made of. The minister of foreign trade directly orders the quality of wooden crates for the export of peppers, the kind of aluminum used for canning tomato puree and even the size of the letters telling the quality of tomatoes[8], in the language and measurement units of the country they are exported to.

Similarly to exports, the organization, management and control of all imports was the monopoly undertaking of the "International Trade Directorate". There was a special commission at the BNB for the import of machines and after 1935 big part of the imports

[7] Only allowed for the best quality grapes. In its efforts to promote Bulgaria as a good trademark, the Ministry changed the name of a sort grapes from the Turkish name «Afuz» still commonly used today to «Bolgar». In September 1938 the quality of the exported Bolgar is specified as minimum 14% sugar and weight of 350 grams per 100 grapes also by the minister of foreign trade.
[8] Caps lock, 2 cm high (ibid.)

from Germany were military supplies and second hand army equipment. The state had undoubtedly more leverage on its imports than on its exports vis-à-vis the domestic economic groups but much less so vis-à-vis the German authorities.

According to Ordinance-Law for the Organization of Import of Goods from Abroad (1939) in order to be allowed to import, a registered enterprise needed a special license from the Directorate, had to have a minimum capital of 250 000 levs no record of engaging in fraud or intentional bankruptcies. It had to present a certificate from its regional chamber of commerce that leadership is sufficiently competent and experienced in the sphere of import trade. The license had one year validity and covered the import of the following items: textile and textile raw materials, metal and machines, chemicals, drugs and cosmetics, food, household goods, petrol and lubricants, leather and leather products, electrical appliances, apparatuses, instruments and motor vehicles. Each licensed to import company entered the register of importers at the Directorate where the latter keeps a file for each company and its activity. A license was refused if the company was proved to have damaged the good name of the Bulgarian export-trader abroad or violated the law. The ministry had the right to establish, reorganize and disband the Import Centrals[9] and other related associations. The Directorate prioritized the goods for import according to their importance and controlled the maximum import prices and quality standards.

III. 2. The Interests of Exporters

The exporters saw this institutional arrangement as beneficial and legitimate in view of the circumstances, nevertheless they often voiced demands and criticism. The main organ for deliberation between the exporters, the Export Institute and all other state institutions concerned with export was the General Assembly at the EI. In his speech on the occasion of the day of the trader, Hristo Yotsov, director of the Union of Bulgarian Exporters, states that deliberating among all interested parties was the only way to achieve a coordinated and efficient policy of export. He advocated that a representative of the Union of Exporters be included in all lower level commissions at the Chambers of commerce, BNB, the railways, ministry of trade and industry etc. when concrete problems of the sector are being discussed. He explains that currently (1937) the interested associations are only asked to give an opinion and it is often the case that their opinion and demands are ignored even when well argued and of national economic interest.

His comment on the increased state intervention in the economy is that it would be acceptable and no one would disagree if the state provided guidance in line with the desirable political goals of the present moment but not when it assumes the right to manage private property. State intervention is only legitimate if the administration has the needed capacity and qualification but not when it experiments with half thought regulations and wastes public and private resources alike. He calls for greater responsibility on the part of the bureaucracy, which he criticizes for creating barriers to export. At the same time Yotsov advocates for a competent state intervention in the economy, which he understands as "steering" the economy as a whole in the right direction. He approves of the monopoly of the BNB over all monetary and foreign trade agreements. To end his patriotism infused speech he states that the current century is an economic century; wars are fought for access to markets and a "firm statecraft is vital for success" (CPRO 1580K/1/16).

In various articles, speeches and reports Yotsov presents the main achievements and challenges for the export sector. In 1935 he is congratulates the union's members for the record export of grapes which in his view is due above all to the "character of the Bulgarian trader-exporter, who demonstrated courage, creativity, flexibility and took the risk. This is a victory, a heroic act," he proclaims, "which speaks of the potential of the country amidst harsh competition from other more powerful and rich countries". He gives credit also to the Bulgarian producer and finally to the Bulgarian institutions, ministry of foreign trade, the EI, the BNB, Bulgarian State Railways, which have provided full support and patronage. He is optimistic that continuous hard work will yield such rewards next year as well (CPRO, 1580K/1/21). For the year 1940-41 he reports that the presently existing organization of trade supports the interests of the exporters who are now providing military deliveries and have an optimistic outlook for building a "powerful economic Bulgaria" (CPRO, 1580K/1/22).

By 1937 the Export Institute enjoyed good reputation among the exporters; its director Kalendjiew being a former chairman of the Union of Bulgarian Exporters, shared the principals of dialogue with the traders. They were free to voice their demands and open criticism to the current policies. At the beginning of the institute's activity (1935) they demanded lower export duties; establishing veterinary conventions for the export of animals and meat, improved refrigeration[10], they criticized the chaotic industrial protection measures, the lack of a coordinated general economic policy and the exchange rate policy, which artificially suppresses the prices of local goods through a undervalued exchange rate of the lev. They were openly against the state support for the tobacco and rose oil monopolies, which had in their view access to better export credit conditions granted by the Bulgarian Agricultural and Cooperative Bank (CAS 1580/1/14). Other lasting concerns remained the cost of transportation set by the state railways and the foreign currency policy of the BNB.

According to the exporters compensation deals and premiums are the main method of increasing the prices of exports but the unstable premiums and unclear exchange rate regulations make it difficult for the exporters to calculate their export revenues. Their demand is for clear rules so that they know rather than speculate about the financial outcomes and that private compensations should not to be limited by the clearing agreements. Examples of compensation deals are the canning factories exporting tomato purée in exchange for metal caps, glass jars, tin and sealing machines. The payment was settled through exchange of letters of credit between the BNB and the Reichsbank under the clearing agreement (CPRO/512/1 /19).

The exporters also insisted that their business travel abroad should not be limited (by disallowing foreign exchange for it) as their contacts are the only way to do trade abroad. The exporters of grapes fully accepting the dominance of the German market demand that all bureaucratic barriers with respect to Germany be eased. One of the main such barriers is the increasing volume of blocked Bulgarian assets at the Reichsbank. Fears about a future fall of the value of the reichsmark and the uncertainty about the changing German rules and laws of trade are directed to the BNB with the plead for increased imports from Germany and pursuing a balanced trade. In 1937 they ask that the exported fruits and vegetables were paid for immediately as had been the case in the previous year when the German market was more open. They are also following their competitors in Hungary and Yugoslavia who are granted special preferential treatment in certain export items and respectively demand that the Bulgaria government negotiates

[10] At the time Bulgarian Railways did not have enough refrigerating wagons to satisfy the needs of nondurable goods exports and such wagons had to be rented from foreign companies for clearing or convertible currency.

the same treatment for the Bulgarian much smaller export of the same goods[11]. The Bank's response to these demands was nothing short of the desired paternalistic steering of the export sector demanded by its representative.

III. 3. The Central Bank as a channel of foreign authority

As of April 1937 the clearing account of the BNB amounted to 10.1 m reichsmarks. During the previous year after the devaluation of the French and Swiss francs, the Dutch florin, the Czechoslovak crown and the Italian lira fears of eventual devaluation of the reichsmark spread across the trading community. Exporters of fruits and vegetables, eggs and poultry frequently approached the central bank with demands that it buys out their accumulated claims. Their demands were based not only on the exchange rate risk but also on the non-durability of their products and the lack of alternative markets.

Initially, the BNB initially issued a decree on February 14th 1936 stipulating that two thirds of the exports of these non-durable goods were to be paid from the clearing account and one third as counter import from a German exporter as private compensation. (CPRO 285K) In a letter to the Ministry of Finance the BNB reported this arrangement as economically suboptimal and suggested that buying a hundred percent of the Reichsmarks of the exporters in question would be a better solution. The BNB further proposed that the 2:1 ratio of clearing to compensation payments should be formally preserved for all export categories while at the same time the BNB should start a quiet payment of 100 percent of the clearing marks to fruit and vegetable exporters. These marks would be bought from the BNB by the government, as the central bank could not be exposed to the exchange rate risk. (Ibid.) The Council of Ministers voted the new directive published in the Official Journal N 160 of July 2nd 1936[12].

The financing of exporters, which started on February 1st 1937, and was planned for five consecutive years was organized as a BNB purchase of reichsmarks from the exporters at a fixed exchange rate of 32.50 levs per mark. The government afterwards bought up to 82.388 m levs worth of reichsmarks from the central bank at 33 levs per

[11] They quote specifically lard and dried plums which were the main agricultural export items from Yugoslavia. The German strategy was to export big ammounts of the main products in each country even if it did not needed them in order to gain a leading position as a buyer and then at a later point to import what was more valuable, in the case of Yugoslavia copper and zink. (See Grenzebach,1988)

[12] The Official Journal is a government issued newspaper for the purpose of officially announcing new legislation.

mark. For this transaction the BNB collected one percent exchange rate tax (Central State Archive, 171/1/2).

This practice is discussed by Larry Neal as the “financing principle” which is similar to issuing money backed only by the blocked Reichsmarks. Although the BNB and the Bulgarian ministry of finance unilaterally took this step it was in line with the interest of the German government, that Bulgaria provides its export financing while limited exports from Germany helped its mobilization effort. By financing its exporters with new issues of levs the Bulgarian government was in fact crediting German consumption. The purchase of RM was guaranteed to exporters only for two months and could not be renewed. In 1938 the government issued a statement by which it assumed the entire political risk of the export of grape and other fruits abroad and guaranteed all payments to exporters in case those were prevented by adverse developments like mobilization and war (CPRO, 285 K). Clearing surplus rose from 1 800 m levs to 15 000 m levs between 1939 and 1942 (Avramov ed. 1999). On April 2nd the BNB allowed local lending institutions to extend loans in levs against foreign currencies and receivables under clearing (Ibid.).

The refinancing policy was a reaction to the very specific problem created by the clearing regime and not a result of ideological or political commitment to Germany. Nevertheless, by pursuing its national interest and defending the solvency of its economic actors the central bank became a channel for foreign authority allowing the exports to continue instead of finding an alternative or bearing the negative consequences of exiting the relationship with the Reich. The state reorganized itself as the central manager and coordinator of economic activity, subordinating the domestic outcomes of foreign trade to its preference for German authority, complying strictly with German demands and changing trade rules and keeping the value of the reichsmark in relation to the lev stable for ten years. The fixed exchange rate was only valid for trade transactions while officially the currency was fixed to the Swiss franc. This is yet another example that the Bulgarian choice was consciously made for integration with the German economy. It was also legitimized domestically through an efficient corporatist organization of interest representation and paternalistic economic policy.

IV. CONCLUSION

In this paper I tried to present the institutional effects of economic crisis on small states during the Great Depression. Unlike today’s context of global economic integration and free capital mobility, the Great Depression brought about capital controls and regional trade agreements. In the most restrictive of all regional arrangements – the case of bilateral clearing trade regime small states were in a position to become heavily dependent on external authority but at the same time also to strengthen their control over domestic economics and politics. Unlike today's anti-crisis measures which aften lead to both external and internal loss of authority loss of authority, such as constraints on fiscal policy, small states in the 1930's while giving up external authority managed to mobilize their domestic economies by creating and strengthening corporatist types of institutions. The main claim of the paper is that as a result of the Great Depression economic integration between a dominant state and a dependent state promoted a stronger state in the small country able to mobilize resources in the name of the national interest. This was done not in a process of emulation or institutional mimicking of the core state. It was achieved through a process of economic integration where the small state's monopoly over its economy was a necessary condition for economic integration with the core. In this process of giving up authority to the dominant state and extending authority over more and more spheres of domestic economic activity the small state acted as a promoter of domestic interests rather than as a defender of the financial sector and an ally of the international institutions rather than its constituency.

Based on the case of Bulgarian-German economic and monetary relations in the period 1933-1944 the paper demonstrated the institutional transformations in Bulgaria in response to the Great Depression. The state not only took a leading role in the foreign economic activities of private organizations, but also created and organized the institutions of interests' representation and acted as a defender of the national economic interest as expressed by these organizations. Thus its control over the economy was seen as legitimate in view of the circumstances and perceived even as needed in view of the international context.

The bilateral clearing mechanism of trade and payments advanced by Germany with Central and Eastern Europe promoted a gradual increase in the role of the state but each of the small states had a choice how far to integrate how much authority to give up to Germany and how to control their economy. The institutional effects in the different countries vary and are not simply the result of German pressure or demand but as Lake suggests a result of the expected economic and political marginal gains. The paper suggests that the relationship between external and internal authority is determined by the international trade regime promoted by the core state and the degree to which the small state will comply with it. However, the domestic institutions of the small state are still its own best resource and provide the possibility for various domestic arrangements to resists or utilize the position of international subordination. The case of Bulgaria is especially interesting because being the most dependent state in the German sphere of influence did not disable its domestic capacity for organizing a system of interests' representation and acting as a domestic agent in international negotiations. This was achieved without the state being a totalitarian and actually private actors and associations enjoyed greater freedom than in the core state, Germany. This demonstrates that the small states have more choices than it is usually assumed, located primarily in their domestic policies and institutions.

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