# THE BULGARIAN ECONOMY
## In the Twentieth Century

John R Lampe

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# PREFACE

Almost twenty years have passed since I first drove into Sofia on a hazy hot August day to take up my duties as a young economics officer at the American Embassy. I returned in 1972 for post-doctoral research on Bulgarian financial institutions in the pre-1914 period. These two experiences have made Bulgaria's present and past the object of special interest in a subsequent academic career whose focus has been Balkan economic history. The editor's invitation to write the Bulgarian volume in this timely series on the economic history of the modern European states is therefore most welcome.

The series rightly recognises that the forty years which have now passed since the end of the Second World War are a long enough period to be viewed as economic history and deserve to be connected with the earlier decades of this century. This Bulgarian volume bears a special monographic responsibility. Native scholars, like their colleagues elsewhere in Eastern Europe, have — at least until recently — painted the periods before and after the Communist accession to power as contrasting so sharply that no significant links could be discerned. Western scholars have paid little attention to the earlier period, and less to relating it to the post-war era. In the present volume, I seek to spell out both the ways in which the two periods are connected and the ways in which they are not.

This volume also bears a special responsibility as a survey. The general history of modern Bulgaria, like that of most small European countries, has been neglected in the English language. The few monographs and the one excellent survey, by Richard Crampton of the period 1878–1918, listed in the bibliography are virtually all that has been published recently. I therefore feel obliged to provide the reader, at the start of each chapter, with more political background than would be required for familiar subjects such as France or the USSR.

The following treatment of Bulgarian economic history is grounded on only a few assumptions: free markets and modern technology are good, monopoly or isolation are bad, and economic value and prices are best measured by relative scarcity. Neither public nor private enterprise is presumed to be innately superior to the other.

I must draw on a variety of sources. The official publications of the Bulgarian statistical service have generally been the Balkan states' most comprehensive and careful studies throughout the twentieth century. There are none the less important gaps in these data. Native scholarship is of help here. Attention to economic history and analysis began with the founding of the Bulgarian Economic Society in 1895. Its journal was published continuously until 1940, and to a high standard. Post-war publications by a new generation of Marxist economic historians have surpassed pre-war scholarship in quantity, in detail and in use of primary sources. At the same time, this new work has concentrated on the pre-1914 period and left the years since 1948 largely uncovered. Western, and especially American, economic and statistical analysis of the post-war period has improved markedly since about 1970 and proved most valuable to this volume. Also valuable, however, have been current Bulgarian economics journals, and the publications of the Bulgarian Chamber of Commerce and Industry, the United Nation's Economic Commission for Europe, and the Council for Mutual Economic Assistance.

This volume provides me with an opportunity to update, expand and revise the treatment of Bulgaria's pre-1950 experience in *Balkan Economic History, 1550–1950: From Imperial Borderlands to Developing Nations*, which I wrote with Marvin R. Jackson for Indiana University Press (1982). Reviews of that first volume in Western and in Bulgarian journals helped to point the way towards preparing the present one. A research grant in 1981 and a travel grant in 1984 from the International Research and Exchanges Board enabled me to gather more material in Bulgaria, particularly on the post-1950 period. The Center for Bulgaristica in Sofia hosted my trip in 1984 and graciously arranged interviews with a number of Bulgarian economists and officials on recent trends. Conversations with scholars from the Higher Economics Institute 'Karl Marx' and the co-operation of Bulgarian Chamber of Commerce and Industry were especially helpful. The National Library 'Kiril and Methodius' and the library of the Bulgarian Academy of Sciences were as usual of great assistance. In the United States, the Library of Congress in Washington, DC, the National Agricultural Library in Beltsville, Maryland, and the University of Illinois Library at Urbana-Champaign proved to be useful sources of

material. I consulted the latter as an Associate in the Summer Research Laboratory of the university's Russian and East European Center in 1982 and 1984.

The manuscript was read entirely or in part by Alan S. Milward of the University of Manchester Institute of Science and Technology, Marvin R. Jackson of Arizona State University, Richard J. Crampton of the University of Kent at Canterbury, and Liuben Berov of the Karl Marx Higher Economics Institute in Sofia. Their critical suggestions were helpful, although full responsibility for the final text is naturally my own. Iris Mendels provided expert editorial assistance while proofreading the final text.

The University of Maryland furnished me with indispensable assistance. A semester grant from the Graduate Research Board allowed me to draft the largest part of the manuscript. The text was then prepared on word-processor by the staff of the Department of History, principally by Darlene King. Department Chairman Emory G. Evans supported the project consistently and authorised funding for maps and statistical tables. As with *Balkan Economic History*, maps were prepared by Bowring Cartographic Research and Design, Arlington, Virginia, and tables were typed by Carol Warrington of the University of Maryland's Computer Science Center.

Again, I owe a final debt to the unfailing encouragement of my wife, Dr Anita B. Baker-Lampe, who shares my own appreciation of Bulgarian hospitality. The volume is dedicated to continued scholarly exchange between East and West, and to the proposition that scholars need not agree in order to communicate usefully or to gain from each other's work.

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# EDITOR'S INTRODUCTION

By comparison with the nineteenth century, the twentieth has been very much more turbulent, both economically and politically. Two world wars and a great depression are sufficient to substantiate this claim without invoking the problems of more recent times. Yet despite these setbacks, Europe's economic performance in the present century has been very much better than anything recorded in the historical past, thanks largely to the super-boom conditions following the post-Second World War reconstruction period. Thus in the period 1946–75, or 1950–73, the annual increase in total European GNP per capita was 4.8 per cent and 4.5 per cent respectively, as against a compound rate of just under 1 per cent in the nineteenth century (1800–1913) and the same during the troubled years between 1913 and 1950. As Bairoch points out, within a generation or so European per-capita income rose slightly more than in the previous 150 years (1947–75 by 250 per cent, 1800–1948 by 225 per cent) and, on rough estimates for the half century before 1800, by about as much as in the preceding two centuries.[1]

The dynamic growth and relative stability of the 1950s and 1960s may, however, belie the natural order of things, as the events of the later 1970s and early 1980s demonstrate. Certainly it would seem unlikely that the European economy, or the world economy for that matter, will see a lasting return to the relatively stable conditions of the nineteenth century. No doubt the experience of the present century can easily lead to an exaggerated idea about the stability of the previous one. Nevertheless, one may justifiably claim that for much of the nineteenth century there was a degree of harmony in the economic development of the major powers and between the metropolitan economies and the periphery, which has been noticeably absent since 1914. Indeed, one of the reasons for the apparent success of the gold standard post-1870, despite the aura of stability it allegedly shed, was the absence of serious external disturbances and imbalance in development among the major participating powers. As Triffin writes, 'the residual harmonization of national monetary and credit policies depended far less on *ex post* corrective action, requiring an extreme flexibility, downward as well as upward, of national price and wage levels, than on an *ex ante* avoidance of substantial disparities in cost competitiveness and the monetary policies that would allow them to develop'.[2]

Whatever the reasons for the absence of serious economic and political conflict, the fact remains that until 1914 international development and political relations, though subject to strains of a minor nature from time to time, were never exposed to internal and external shocks of the magnitude experienced in the twentieth century. Not surprisingly, therefore, the First World War rudely shattered the liberal tranquillity of the later nineteenth and early twentieth centuries. At the time few people realised that it was going to be a lengthy war and, even more important, fewer still had any conception of the enormous impact it would have on economic and social relationships. Moreover, there was a general feeling, readily accepted in establishment circles, that following the period of hostilities it would be possible to resume where one had left off — in short, to re-create the conditions of the pre-war era.

For obvious reasons this was clearly an impossible task, though for nearly a decade statesmen strove to get back to what they regarded as 'normalcy', or the natural order of things. In itself this was one of the profound mistakes of the first post-war decade, since it should have been clear, even at that time, that the war and post-war clearing-up operations had undermined Europe's former equipoise and sapped her strength to a point where the economic system had become very sensitive to external shocks. The map of Europe had been rewritten under the political settlements following the war, and this further weakened the economic viability of the continent and left a dangerous political vacuum in its wake. Moreover, it was not only in the economic sphere that Europe's strength had been reduced; in political and social terms, the European continent was seriously weakened and many countries in the early post-war years were in a state of social ferment and upheaval.[3]

Generally speaking, Europe's economic and political fragility was ignored in the 1920s, probably more out of ignorance than intent. In their efforts to resurrect the pre-war system, statesmen believed they were providing a viable solution to the problems of the day, and the fact that Europe shared in the prosperity of the later 1920s seemed to vindicate their judgement. But the post-war problems — war debts, external imbalances, currency issues, structural distortions and the like — defied solutions along traditional lines. The most notable of these was the attempt to restore a semblance of the gold standard in the belief that it had been responsible for the former stability. The upshot was a set of haphazard and inconsistent currency-stabilisation policies that took no account of the changes in relative costs and prices among countries since 1914. Consequently, despite the apparent prosperity of the latter half of the decade, Europe remained in a state of unstable equilibrium, and therefore vulnerable to any external shocks. The collapse of US foreign lending from the middle of 1928, and the subsequent downturn of the American economy a year later exposed the weaknesses of the European economy. The structural supports were too weak to withstand violent shocks and so the edifice disintegrated.

That the years 1929–33 experienced one of the worst depressions and financial crises in history is not altogether surprising, given the convergence of many unfavourable forces at that point in time. Moreover, the fact that a cyclical downturn occurred against the backdrop of structural disequilibrium only served to exacerbate the problem, while the inherent weakness of certain financial institutions in Europe and the United States led to extreme instability. The intensity of the crisis varied a great deal, but few countries, apart from the USSR, were unaffected. The action of governments tended to aggravate rather than ease the situation. Such policies included expenditure cuts, monetary contraction, the abandonment of the gold standard and protective measures designed to insulate domestic economies from external events. In effect these policies, although sometimes affording temporary relief to hard-pressed countries, in the end led to income destruction rather than income creation. When recovery finally set in in the winter of 1932/3, it owed little to policy contributions, though subsequently some Western governments did attempt more ambitious programmes of stimulation, while many of the poorer Eastern European countries adopted autarchic policies in an effort to push forward industrialisation. Apart from some notable exceptions, Germany and Sweden in particular, recovery from the slump, especially in terms of employment generation, was slow and patchy, and even at the peak of the upswing in 1937 many countries were still operating below their resource capacity. A combination of weak real growth forces and structural imbalances in development would no doubt have ensured a continuation of resource under utilisation, had not rearmament and the outbreak of war served to close the gap.

Thus, by the eve of the Second World War, Europe as a whole was in a much weaker state economically than it had been in 1914, with her shares of world income and trade notably reduced. Worse still, she emerged from the Second World War in 1945 in a more prostrate condition than in 1918, with output levels well down on those of the pre-war period. In terms of the loss of life, physical destruction and decline in living standards, Europe's position was much worse than after the First World War. On the other hand, recovery from wartime destruction was stronger and more secure than in the previous case. In part, this can be attributed to the fact that in the reconstruction phase of the later 1940s, some of the mistakes and blunders of the earlier experience were avoided. Inflation, for example, was contained more readily between 1939 and 1945, and the violent inflations of the early 1920s were not for the most part repeated after the Second World War. With the exception of Berlin, the map of Europe was divided much more cleanly and neatly than after 1918. Though it resulted in two ideological power blocs, the East and the West, it did nevertheless dispose of the power vacuum in Central/East Europe, which had been a source of friction and contention in the inter-war years. Moreover, the fact that each bloc was dominated or backed by a wealthy and rival super-power meant that support was forthcoming for the satellite countries. The vanquished powers were not, with the exception of East Germany, burdened by unreasonable exactions, which had been the cause of so much bitterness and squabbling during the 1920s. Finally, governments no longer hankered after the 'halcyon' pre-war days, not surprisingly given the rugged conditions of the 1930s. This time it was to be planning for the future which occupied their attention, and which found expression in the commitment to maintain full employment and all that entailed in terms of growth and stability, together with a conscious desire to build upon the earlier social welfare foundations. In wider perspective, the new initiatives found positive expression in terms of a readiness to co-operate internationally, particularly in trade and monetary matters. The liberal American aid programme for the West in the later 1940s was a concrete manifestation of this new approach.

Thus despite the enormity of the reconstruction task facing Europe at the end of the war, the recovery effort, after some initial difficulties, was both strong and sustained, and by the early *1950s* Europe had reached a point where it could look to the future with some confidence. During the next two decades or so, virtually every European country, in keeping with the buoyant conditions in the world economy as a whole, expanded very much more rapidly than in the past. This was the super-growth phase, during which Europe regained a large part of the relative losses incurred between 1914 and 1945. The Eastern bloc countries forged ahead the most rapidly under their planned regimes, whereas the Western democracies achieved their success under mixed-enterprise systems with varying degrees of market freedom. In both cases, the state played a far more important role than hitherto, and neither system could be said to be without its problems. The planning mechanism in Eastern Europe never functioned as smoothly as originally anticipated by its proponents, and in due course most of the socialist countries were forced to make modifications to their systems of control. Similarly, the semi-market systems of the West did not always produce the right results, so that governments were obliged to intervene to an increasing extent. One of the major problems encountered by the demand-managed economies of the West was that of trying to achieve a series of basically incompatible objectives simultaneously — namely, full employment, price stability, growth and stability, and external equilibrium. Given the limited policy weapons available to governments, this proved an impossible task to accomplish in most cases, although West Germany managed to achieve the seemingly impossible for much of the period.

Although these incompatible objectives proved elusive *in toto*, there was, throughout most of the period to the early 1970s, little cause for serious alarm. It is true that there were minor lapses from full employment; fluctuations still occurred, but they were very moderate and took the form of growth cycles; some countries experienced periodic balance of payments problems, though prices generally rose continuously, albeit at fairly modest annual rates. But such lapses could readily be accommodated, even with the limited policy choices, within an economic system that was growing rapidly. And there was some consolation from the fact that the planned socialist economies were not immune from some of these problems, especially later on in the period. By the later 1960s, despite some warning signs that conditions might be deteriorating, it seemed that Europe had entered a phase of perpetual prosperity not dissimilar to the one the Americans had conceived in the 1920s. Unfortunately, as in the earlier case, this illusion was to be rudely shattered in the first half of the 1970s. The super-growth phase of the post-war period culminated in the somewhat feverish and speculative boom of 1972–3. By the following year, the growth trend had been reversed, the old business cycle had reappeared and most countries were experiencing inflation at higher rates than at any time in the past half century. From that time onwards, according to Samuel Brittan, 'everything seems to have gone sour and we have had slower growth, rising unemployment, faster inflation, creeping trade restrictions and all the symptoms of stagflation'.[4] In fact, compared with the relatively placid and successful decades of the 1950s and 1960s, the later 1970s and early 1980s have been extremely turbulent, reminiscent in some respects of the inter-war years.

It should, of course, be stressed that by comparison with the inter-war years, or even with the nineteenth century, economic growth has been quite respectable since the sharp boom and contraction in the first half of the 1970s. It only appears poor in relation to the rapid growth between 1950 and 1973, and the question arises as to whether this period should be regarded as somewhat abnormal, with the shift to a lower-growth profile in the 1970s being the inevitable consequence of long-term forces involving some reversal of the special growth-promoting factors of the previous decades. In effect this would imply some weakening of real-growth forces in the 1970s, which was aggravated by specific factors, for example, energy crises and policy variables.

The most disturbing feature of this later period was not simply that growth slowed down, but that it became more erratic, with longer recessionary periods involving absolute contractions in output, and that it was accompanied by mounting unemployment and high inflation. Traditional Keynesian demand-management policies were unable to cope with these problems and, in an effort to deal with them, particularly inflation, governments resorted to ultradefensive policies and monetary control. These were not very successful either, since the need for social and political compromise in policy-making meant that they were not applied rigorously enough to eradicate inflation, yet at the same time their influence was sufficiently strong to dampen the rate of growth, thereby exacerbating unemployment. In other words, economic management is faced with an awkward policy dilemma in the prevailing situation of high unemployment and rapid inflation. Policy action to deal with either one tends to make the other worse, while the constraint of the political consensus produces an uneasy compromise in an effort to 'minimise macroeconomic misery'.[5] Rostow has neatly summarised the constraints involved in this context: 'Taxes, public expenditure, interest rates, and the supply of money are not determined antiseptically by men free to move economies along a Phillips curve to an optimum trade-off between the rate of unemployment and the rate of inflation. Fiscal and monetary policy are, inevitably, living parts of the democratic political process.'[6]

Whether the current problems of contemporary Western capitalism or the difficulties associated with the planning mechanisms of the socialist countries of Eastern Europe are amenable to solutions remains to be seen. It is not, for the most part, the purpose of the volumes in this series to speculate about the future. The series is designed to provide clear and balanced surveys of the economic development and problems of individual European countries from the end of the First World War to the present, against the background of the general economic and political trends of the time. Though most European countries have shared a common experience for much of the period, it is nonetheless true that there has been considerable variation among countries in the rate of development and the manner in which they have sought to regulate and control their economies. The problems encountered have also varied widely, in part reflecting disparities in levels of development. Although most European countries had, by the end of the First World War, achieved some industrialisation and made the initial breakthrough into modern economic growth, nevertheless there existed a wide gulf between the richer and poorer nations. At the beginning of the period, the most advanced region was north-west Europe including Scandinavia, and as one moved east and south so the level of per-capita income relative to the European average declined. In some cases, notably Bulgaria, Yugoslavia and Portugal, income levels were barely half the European average. The gap has narrowed over time, but the general pattern remains basically the same. Between 1913 and 1973, most of the poorer countries in the east and south (apart from Spain) raised their real per-capita income levels relative to the European average, with most of the improvement taking place after 1950. Even so, by 1973 most of them, with the exception of Czechoslovakia, still fell below the European average, ranging from 9–15 per cent in the case of the USSR, Hungary, Greece, Bulgaria and Poland, to as much as 35–45 per cent for Spain, Portugal, Romania and Yugoslavia.

Italy and Ireland also recorded per-capita income levels some way below the European average.[7]

Despite its relatively small size — a population of around 9 million today — Bulgaria deserves more attention than it has so far been accorded by contemporary historians. It has been one of the great success stories of the twentieth century, with the highest rate of economic growth in Europe and a degree of structural change second to none. Yet up to the end of the First World War, and even beyond, conditions were not especially propitious for such rapid transformation. Bulgaria had not long gained full independence and is still smarting from the effects of Ottoman hegemony. The country was very poor and not over-endowed with natural resources, while the bulk of the population derived their livelihood from the land, the development of which was impeded by geographical and climatic limitations. Non-agrarian progress before the war was confined to a narrow sector, principally in and around Sofia, a capital which increasingly tended to dominate the country. Finally, in the First World War Bulgaria backed the wrong horse and emerged in a weakened state with a reparations bill to boot.

However, it did have two distinct advantages over many other states that arose from the post-war peace settlements. First, it did not have any new territories to assimilate, nor did it incur territorial or resources losses. Second, it was not burdened with the problem of ethnic integration. Most of the population were real Bulgarians; the only important minority group was the Turks, whose numbers were dwindling. In addition, it was an advantage that its key leaders were trained in economics and perceived the need for economic progress. The problem, however, was how to capitalise on its primarily agrarian base by converting produce into a marketable surplus in order to provide the wherewithal to advance on the manufacturing front. Given the low level of efficiency in agriculture and the restricted state of world markets for primary products, there was no easy solution, short of adopting the Soviet method or the Danish approach, but the first was rejected and the second not successfully adopted. Hence Bulgaria had to rely on its own efforts to adapt the product structure of its primary base and on the flow of Western capital. Limits were thus set to the rate of transformation, and the share of manufacturing in total output remained very small, despite impressive growth in this sector during the 1920s.

The insecurity of the economic base became evident in the ensuing depression, with the steep fall in agricultural prices, the