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**THE EVOLUTION OF GERMAN HISTORICAL SCHOOL IN BULGARIA
(1878 – 1944)**

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The Evolution of German Historical School in Bulgaria (1878-1944)

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Abstract: In this paper we present one possible *historical* reconstruction of the German historical school in Bulgaria for the period 1878 – 1944.² The main postulates of the historical school which claimed to be a general theoretical model for newly emerging and backward economies suited well the interests of the basic social groups and the intellectual views of the newly formed Bulgarian elites. In Bulgaria the main dominating components of the historical school followed its own evolution (old, young and youngest historical school) while also intermingling with other major components of other theoretical schools. Thus, for instance, right after the Liberation, in the theoretical views of the Bulgarian economic scholars a specific synthesis emerged with the ideas of the classical liberal thought (G. Nachovich, Ivan Evstatiev Geshov), after WWI with the postulates of monetarism and conservative public finances (A. Lyapchev, G. Danailov), and during the 1930s with the ideas of organic and directed economy (A. Tsankov, K. Bobchev). This eclectic interaction, within which the influence of the historical school increased, brought about evolution of the character of the “Bulgarian economic nationalism” (*liberal, monetary-conservative and integral, corporate*). Especially significant for the Bulgarian economic thought was the warm receipt of the Russian economic historical school even if only for the fact that this school came from a Slavic and Orthodox country.

JEL Codes: B15; B31; P00

Key words: German historical school, Bulgarian economic thought, Balkans, Bulgaria

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² For more details see Shionoya (2001).

Introduction

During the second half of the 19th century, similar to other nations which started on the road to building their autonomous statehood and seeking modernization and development, after the Liberation in 1878 Bulgaria too became a favourable ground for the German historical school. The Bulgarian economists and the Bulgarian economic thought as a whole followed the general patterns of evolution and spreading of this economic school although certain specific Bulgarian features were also observed³.

The purpose of this paper is to study the specificities of the Bulgarian *Schmollerprogramm* during the period from the Liberation in 1878 to the coming into power of the Communist regime in 1944 and shed light on the factors and channels of transmitting the ideas of the German historical school into the theory and practice of the Bulgarian economic scholars. The factors and driving forces could be brought down to three groups, namely: those associated with the *interests* of the social groups and actors, those related to the *ideas* and ideology of the dominant elite, and the ones having to do with the Bulgarian cultural *institutions*. Figuratively these factors can be viewed as result both in terms of demand as well as supply of the basic elements of the historical school (unity and organic character of social life, multicausality, and national specificity of economic development, evolutionary and institutionary aspects, empirical and inductive methods, role of ethics etc).

Most generally, the German historical school has occupied a permanent and dominant place in the model of the Bulgarian economic thought. It however has passed through different stages taking various forms and in combination with other theoretical elements which themselves have changed with situations and times. The Bulgarian economic thought was identified as *eclectic* which is not at all an isolated case – a similar situation is observed with the economic science of the Iberian region, Italy and the rest of the Balkan countries.

With some conditionality and simplification the stages of evolution of the Bulgarian economic thought (which follows the evolution of the historical school itself), can be reduced to three (of course the transitions in between were far from radical).

During the first stage, from the Liberation to the wars (1878 – 1912/1919), the German historical school did not differ distinctly from the major postulates of both English and French liberal political economy. Of special formative significance in that period was the influence of Russian economic authors who put forward different syntheses of western theories. This type of economic thought eclectics fit completely into the model of *liberal nationalism*⁴ which most new nations passed through and which was dictated by the need of balance of payments liberalization for the purpose of attracting capitals and modernizing a country's production apparatus. Of course, in Bulgaria, a sub-period could be distinguished after 1894/1895, after the fall of Stambolov's government, when protectionist ideas were forwarded and largely contributed to the establishment of the Bulgarian Economic Society (1895) (*Bulgarsko Ikonomicheskoto Drujestvo*).

³ For the evolution of nationalism in the 19th and 20th centuries see Greenfeld (1993), Payne (1995), Helleiner (2002) and for the economic nationalism in Eastern Europe see Pasvolsky (1928), Mitrany (1936), Kofman (1992), Szlajfer (ed) (1990), David (2009) among many.

⁴ Also called *statist liberalism*, Psalidopoulos and Theocarakis (2011, 169), see also Helleiner (2002).

The second stage which provisionally succeeded the war economy starting from 1919 through to the Great Depression 1929/1931 was characterized by a combination of some of the basic historical school postulates with postulates of the conservative principles of public finance and money management. An important point in that period was the currency stabilization in 1924/1926, external loans and the regular servicing of foreign debts (Bulgaria was the only Balkan country which never stopped servicing its debts and strictly adhered to the recommendations of the League of Nations). The influence of the historical school grew both directly through the return of Bulgarians who were German and Austrian university graduates and partly through the coming of Russian émigrés banished by the Bolsheviks in power. This period conditionally could be termed a period of *conservative (monetary) nationalism* during which the historical school had a dominant place among the rest.

The third stage is directly related to the consequences of the 1930s crisis, the strong impoverishment and indebtedness of part of the Bulgarian rural population, the banking crisis and political instability. We can provisionally mark as its beginning the country's entry into the zone of compensations, clearings and subsequently into the German zone of political and economic influence (1931-1944). At that point, as in most countries, the historical school started to dominate and developed further into new theories of directed corporate, organic etc. economy. In that period the new German economic theories gained extreme popularity in the country along with the leading German and Italian economists and sociologists. That period could be referred to as a period of *integral economic or state and corporate nationalism*, where attempts were sought to transfer fascism and national-socialism locally in order to counter the spreading of Marxian and Bolshevik ideas⁵.

As already noted, in each of the above mentioned stages the historical school occupied a significant place in the Bulgarian economic science and economic practice being the outcome of the operation of interests, ideas and cultural institutions. Throughout the period (1878 - 1944) its role gradually expanded reaching a culmination point in the 1930s. While basically in the first period mainly practical economic tasks were discussed and pure theory rarely was object of interest, the second and third period were characterized by some attempts at individual theoretical constructs.

The paper is further organized as follow: Part one examines the reasons for the penetration of the German historical school into Bulgaria during the period 1878 – 1912. The part highlights the names of the two economists-politicians Grigor Nachovich and Ivan Evstatiev Geshov, as well as Georgi Danailov. The first was a French and Austrian graduate; the second was English, while the third studied in Russia and Germany. Part two (covering the two post-war sub-periods 1919 – 1929/1930 and 1929/1930 – 1944) introduces the reader to three prominent economists. Ivan Kinkel and Konstantin Bobchev put forward original theories of economic development and cyclic character, as well as of foreign trade and protectionism respectively. Curiously, Ivan Kinkel openly called his approach to economic development *eclectic*. The third economist, Alexander Tsankov, politician and professor in political economy, made an attempt to develop a Bulgarian variant of national socialism as an above-all-parties counterpoint of the class theories (as he names them) of Marxism and liberalism.

⁵ Two of the Prime Ministers, many other ministers, MPs and civil servants adopted and widely applied the concepts of historicism. Principles of the historical school were accepted even by politicians with liberal economic views.

I

Building of national economy and modernization: the penetration of the ideas of the German Historical School (Bulgaria after the Liberation and before the Balkan Wars, 1878 – 1912)

Until the separation of Bulgarian lands from the Ottoman Empire in 1878 the independent economic thought among the representatives of the Bulgarian intelligentsia was practically missing⁶. It can be affirmed that by 1878 the influence of the classical liberal economic ideas were prevailing as was the case in the other Balkan countries (Psalidopoulos and Theocarakis (2011)⁷. Yet some of the main postulates of the German Historical School (protectionism, preference for domestic-made products rather than for imported ones, the evolutionary approach to explaining both public and economic phenomena, etc.) made their way into Bulgaria's general public. As the Bulgarian students getting their education in Western Europe were not many before 1878, the achievements of world's economic thought found their way indirectly through Greece, Romania, Russia etc.

Strange as it might seem at first glance, the combination between liberalism and state interference, the latter being typical of the historical school, is not difficult to explain (as already mentioned it is typical of most peripheral or semi-peripheral countries). As we know, even Friedrich List included a similar phase in his protectionist model⁸.

First, this combination of liberalism and state interference is in sync with the dominant economic interests of the social groups in the new principality after 1878. A state administration had to be created quickly, which meant new red-tape elite (which would subsequently absorb the best educated specialists). Bulgaria was an agricultural country with no domestic savings which hindered the accumulation of capitals, i.e. its modernization and industrialization. In this train of thought, if we follow A. Gerschenkron "the state becomes the main instrument of industrialization". Hence the logical opening of the economy for the purpose of capitals import, which automatically entails import of industrial and consumer goods. Opening of the economy was totally in the interests of the rising Bulgarian capitalists. Liberal nationalism was also imposed by the Great Powers through the trade agreements offering low customs duties and full access to the Bulgarian markets for foreign goods. Somewhat later, towards the end of the century, the Bulgarian economists were involved in a fierce theoretical dispute about the character of the Bulgarian economy and the choice of a "pulling" sector of the economy aided by the state⁹.

Second, through their education and intellectual contacts the Bulgarian economic and political elites adopted the *eclectic model* of liberal nationalism. The ideas of the classical school were

⁶Bulgaria became a vassal principality of the Ottoman Empire in 1878, and in 1908 it was established as independent kingdom.

⁷ In their comparative study of the spreading of economic ideas in the Balkan countries during the second half of the 19th century Psalidopoulos and Theocarakis (2011) show the gradual transition from liberal economic thinking to the dominating influence of the German historical school in its typical forms: protectionism, economic nationalism and state interference among others. See also for Romania (Boatca, 2005) and for Turkey (Ozveren et al., 2011).

⁸ For Italy see Toniolo (1998), and for the other Balkan countries see Psalidopoulos and Theocarakis (2011) and Boatca (2005). See Helleiner (2002) for economic nationalism in 19th century.

⁹ By its nature, the debate in Bulgaria was far fiercer compared to the other Balkan countries (Bell, 1977). See also on Bulgarian debates Szporluk (1988): 202 -203. He stressed the strong influence of List protectionist views on Bulgarian Marxists (D. Blagoev and others).

already popular during the period of the Ottoman rule and were later on spread through the Bulgarian students to the French and Russian universities. The education in English universities was episodic: among the exceptions was Ivan Evstatiev Geshov who studied under the tutorship of Stanley Jevons. Initially, many Bulgarians studied in Russia where the liberal principles were closely interrelated with the main postulates of the historical school. It was soon widely accepted in Russia which made W. Roscher to speak of a specific Russian-German historical tradition¹⁰. Of special significance were the prominent Russian economists Ivan Yanzhul and A. Chuprov who taught a great number of renowned Bulgarian economists (Georgi Danailov was one of these)¹¹. The influence of the Russian-German historical school was manifested in the strong interest of the Bulgarian economists in the budget and public finances issues, and as a whole in practical problems and empirical studies¹².

Somewhat later the Bulgarians got a direct access to the German universities and the prominent historical school representatives. Thus, a number of Bulgarians studied in Leipzig where one of the lecturers was Karl Bücher in whose library, kept nowadays at the Kyoto University, there are at least 15 Bulgarian doctoral dissertations written under his or the guidance of his colleagues from Leipzig (Roscher, Ratzel, Brentano, Lamprecht, Stieda, Mayer, etc.) (Bücher (1970)). According to Veliko Jordanov who wrote in 1941, from 1879 to 1899 in Leipzig, all courses of study including, more than 100 Bulgarian students received university education (based on Radonov, 1979, 313). For example in 1903/1904 in German universities were enrolled 73 Bulgarian students, the largest group from the Balkans countries (Crowell, 1904: 594-595)¹³. Original interpretations or important contributions to the major postulates of the German historical school made by Bulgarians in the period until 1918 have not been traced yet.

And third, in purely descriptive terms, the historical school postulates allow to analyse and explain a number of specifically Bulgarian, Slavic or Balkan economic practices and institutions. One such formation was the agricultural cooperative which became the object of analysis of a number of doctoral dissertations under Bücher's guidance which were explicitly cited in his book analyzing the agricultural cooperatives and cooperative communities (so-called "*zadruga*", "*cheta*", etc.) (Bücher, 1901). Russian and German economists fit well into the Bulgarian conditions as their greatest concern was agricultural economy and the development of public finances.

Among the main representatives of the Bulgarian economic thought after the Liberation and till the end of the wars (1878-1918) were Grigor Nachovich (1845-1920), Ivan Evstatiev Geshov (1849-1924) and Georgi Danailov (1872-1939). They illustrate the combination of the liberal views with those of the German Historical School. On the other hand, because of the influence of G. Nachovich and I. Ev. Geshov, and to some extent that of G. Danailov on Bulgaria's political life, their views had a strong impact on national economic policy.

¹⁰ About the German historical school gaining ground in Russia see the interesting analyses of Normano (1949) and Stanziani (1998), Gloveli (2008).

¹¹ We can mention also J. Kulisher, N. Zieber, A. Miklashevskiy, I. Ivanukov, A. Issaev, I. Babbet, N. Bunge, K. Prokopiev, and V. Vorontsov.

¹² The same was typical for Italy (Rabbeno, 1891; Gioia, 2000).

¹³ From 2620 European students in Germany, 986 were from Russia, 69 from Rumania, 64 from France, 43 from Italy, 59 from Greece, 49 from Serbia, 41 from Turkey, 2 from Montenegro etc.

1 Grigor Nachovich (1845-1920), the French liberal

Grigor Nachovich was born on 22nd of January 1845. In 1860 he began his studies at *École supérieure de commerce de Paris*. After finishing the School of Commerce Nachovich studied at the Sorbonne and then at the College of France. There he did economic sciences, but could not complete his education. He left the French capital because of insufficient funds, and according to his self-critical words carried "light scientific luggage" (National Library – Bulgarian Historical Archive (NL-BHA) 14, op. 1, a. e. 1, l. 73, 74-86). Nachovich graduated in Vienna.

The education of Nachovich in Paris and Vienna made him one of the few Bulgarians having specialised economic knowledge before the Liberation of the country¹⁴. The years spent in France were of particular importance. There he fell under the influence of the French liberalism with its characteristic aspiration to link private interest with morality, and especially with the concept of justice. Another important peculiarity of the French liberalism after Jean-Baptiste Say is observed by J. Schumpeter. He writes that what is characteristic for Say's followers is their exceptional orientation towards the problems of the economic policy and their neglecting the pure theoretical research (Sigot, 2010: 759-792; Schumpeter). In Vienna Gr. Nachovich made himself familiar with the achievements of the Older German Historical School in economic science, with its characteristic moderate liberalism and profound attention to ethical issues in economics (The German Historical School, 2001: 1-71).

After the Liberation of Bulgaria, Nachovich got actively involved with political life. He became member of the Constituent Assembly (February–April 1879), which adopted the constitution of Bulgaria. In the years that followed Nachovich was one of the prominent figures in the Bulgarian public life. He was repeatedly elected Member of Parliament and often got involved in the executive. Still with the first Bulgarian government Grigor Nachovich held the responsible position of finance minister. Later on he occupied the same position in other governments; and he was also a Minister of Foreign Affairs and Religions, Minister of Interior, Minister of Trade and Agriculture, Minister of Public Buildings, Agriculture and Trade (1883) and Minister of Public Buildings, Roads and Communications (1894). His last ministry-related post was in the period from 1st of October 1899 to 8th of September 1900 (Tashev, 1999: 315-317).

The economic views of Grigor Nachovich are most clearly presented in his published works. In 1883 he wrote and published a small brochure, entitled "Tobacco Industry in the Bulgarian Principality", and almost 20 years later he published his main economic study, entitled "Some Pages on Agriculture in Bulgaria and Abroad". His publications disclosed his broad theoretical knowledge in the fields of economics and economic history, philosophy, sociology, agronomy, etc. Nachovich was among the few Bulgarian economists at the end of 19th c. who had profound knowledge of the works of leading French, German and Russian authors. Thus, in his main work ("Some Pages on...") he quoted the studies and treatises of more than 60 foreign economists, agronomists, sociologists, ancient historians, etc. among whom Paul Leroy-Beaulieu, A. Smith, Wilhelm Roscher, Michail Kovalevsky, and many others. Notwithstanding his broad economic culture and general accomplishments, it should be noted that his ideas and views were not original but rather reflected some of the leading

¹⁴ Before the Liberation only 13 Bulgarians had any specialised economic education (Genchev, 1991: 230).

trends in the development of the 19th century economic thought (it is worth noting that similar situation existed in other countries, for instance Portugal, see Cardoso, 2002)

Nachovich's views on private property rights and free economic initiative were typically liberal. According to him all measures for enforcement of property rights would eventually result in economic growth. Therefore, the legislature was obliged to ensure the inviolability of property rights against encroachment from top (the decision makers), and the judicial system should guarantee inviolability against encroachment from bottom (robbery and other of the kind, committed by private persons). He was convinced that the collective property limited the economic development, because the motivation for systematic efforts to increase production, improve agricultural equipment, etc. is lost. Private property rights are inevitably related to the freedom of economic initiative. Grigor Nachovich was convinced that the main reason underlying the rapid economic growth of the USA during the 19th c. was not that much due to the huge natural resources, but rather to the labour and the unlimited free entrepreneurship. In their pursuit of enrichment and economic prosperity the Americans faced neither obstacles from the side of the authorities, nor prejudice and outdated laws. Quite the contrary, the authorities and the laws in the USA encouraged free entrepreneurship, which eventually provided the prosperity of society as a whole (Nachovich, 1902: 33-34, 54, 58-59, 214-215).

Nachovich's views on banks and credit were also liberal in nature. According to him, a model of independent credit institutions, which had benefited and continued benefitting the economic growth were "the famous Scottish banks". He described them as a model of free banks established on the principle of the shareholding companies and entitled to issue banknotes independently (without any control by the state). Nachovich observed that Scotland's regulation limited the possibilities for shareholder fraud, because by law they were "liable with all their assets for the activities of the entities established by them, and this definition supported the credibility of the population towards them" (Nachovich, 1902: 225-227). By these words Nachovich emerges as the only Bulgarian economist and statesman (at least in the period by the end of 20th c.), who was aware of the principles of free banking and who considered those principles appropriate and applicable.

Nachovich was aware that the protectionism had a number of negative consequences, which would distort the solidarity in society. Consumers are most directly affected by protectionism. In one of his manuscripts Nachovich observes: "However, those who buy the goods which are more expensive than they would be if not protected, in fact pay a kind of tax to the manufacturers, and manufacturers earn their living and make fortune on the toil of these buyers" (NL-BHA, 14, a.e. 3992, l. 156). He proved the damages of the protectionism by giving examples from England, Germany and Russia. (Nachovich, 1902: 38, 52,120).

The influence of the Older German Historical School on Nachovich can be seen in several aspects. He broadly used arguments from the economic history in order to illustrate or prove certain proposition. He adopted the theory of the main stages of economic development of mankind of Wilhelm Roscher; historically people subsisted themselves by hunting and fishing, then they moved to "status" of shepherds and nomads, and then to agriculture as the third step to civilization. He considered logically and argumentatively the appearance of private property in historical perspective. He emphatically defended the proposition that studying economic history of the advanced nations would bring earnest benefit to the less developed communities.

Nachovich considered the issue on the relationship between the state and the economy as particularly significant. He tolerated stronger state interference in the economy than a representative of the Classical political economy would accept as normal. This was due to the fact that Nachovich wrote from the point of view of an economist and politician in a underdeveloped, peripheral country, and as such he was searching for the suitable model (for Bulgaria) to catch up. Nachovich was convinced in the possibilities of the governments to improve the fate of the less developed countries and to introduce measures toward progress, especially in agriculture. Among the main functions of the state, other than protection of private property, he considered the encouragement of production, attraction of foreign capitals, development of agricultural education, maintenance of functioning judicial system, etc. (Nachovich, 1902: 21-29, 97, 102, 187, 203-215). In this regard, Nachovich firmly defended the so-called productive investments of the state, since in his words they "will produce 1000 on 100 [invested]" (Diaries, 1883: 142), i.e. such state investment which would benefit the whole society.

Nachovich points out that governmental effort to promote economy would have to mean construction of railways, roads, granaries, drainage of wetlands, construction of sewerage systems, flood control, i.e. infrastructure. (Nachovich, 1902: 28). Another acceptable form of government promotion was funding of model artisan workshops by which craftsmen would be supported in their struggle against the competition of the foreign industrial production.

Both in his scientific and theoretical works and in his activity as a politician Nachovich attempted to combine liberalism with governmental measures for encouragement of economy. From his position of a financial minister in 1882-1883 Grigor Nachovich undertook the first shy steps towards promoting domestic industry and implementing independent foreign trade policy (which was forbidden for Bulgaria under the terms of the treaty of Berlin 1878). On his initiative at the end of 1882 the Parliament passed the first regulative document by which, although quite timidly, the state encouraged domestic industrial production. According to this document in public procurement Bulgarian goods would have to be preferred even if they were up to 15 % more expensive than the same foreign goods. At the end of December 1883 the first National Industrial Development Act was passed. In the explanatory memorandum to the bill Grigor Nachovich noted that the aim of the government was not to protect the factory production, which was almost absent in the Principality of Bulgaria. The main idea was to protect from foreign competition "the handiwork done by our mothers and wives, as it is in decline and dying out because, despite all their diligence invested in Bulgarian handiwork, [it] ... is not used". The Act contains four articles stipulating that only domestic fabrics would be used for making of the uniforms of the soldiers and policemen (Yochev, p.72-73).

In 1883 again on initiative of Grigor Nachovich the first independent Bulgarian customs tariff was adopted. The tariff provided for higher duties imposed on the foreign goods imported to Bulgaria compared to those guaranteed by the Berlin Treaty (8% ad valorem) – the duties for certain goods reached 10–12 % (Chakalov, 1928, p. 60). In addition, instead of imposing the same customs duty rates on all goods, a specific duty was envisaged for the first time, i.e. there was an attempt to protect domestic production through a system of high duties on goods, which were also produced domestically. That customs tariff however concerned only the goods from countries which had not entered into trade agreements with the Ottoman Empire before signing the Treaty of Berlin, such as Serbia and Romania. Thus, practically the importance of the customs tariff was limited. Bulgaria had economic structure similar to that of the other Balkan countries and therefore imports were mainly from the developed Central

and West European countries (Sazdov et al, 2001: 228-229). The economic views and political activity of Grigor Nachovich do not show any dramatic contradiction between liberalism and historicism.

2 Ivan Evstatiev Geshov (1849-1924), the Jevons student

Ivan E. Geshov was born in 1849. In 1865 he moved with his family to Manchester. In 1866 he enrolled at Owens College. There he became one of the best students of William Stanley Jevons¹⁵. Being in the circle of one of the most influential economists at the end of 19th century was a very important factor for shaping Geshov's scientific and theoretical views and for outlining the directions into which he would later drive Bulgaria's economic development. At the same time Geshov was strongly influenced by other British political economists such as John Stuart Mill and Jeremy Bentham (Statelova, 1994: 8-13). He returned to Bulgaria in 1872.

After 1878 Geshov took important administrative positions and got actively involved in political life. He was governor of BNB (1883-1886), after that was elected as a member of parliament several times and became the leader of one of the most influential political parties in the country – the People's Party. In 1886 he participated for the first time in the executive as Minister of Finance for a couple of months. From 1894 to 1897 he was appointed again Minister of Finance. He also headed the Ministry of Trade and Agriculture for some time, and from 1911 to 1913 he was Prime Minister and Minister of Foreign Affairs of Bulgaria (Bulgarian Public Institutions, 1987: 312-318).

The views of Ivan E. Geshov on different economic issues are presented in a series of papers, published in various journals, mostly at the end of 19th c. In 1899 his publications were collected in a book, entitled *Words and Deeds. Financial and Economic Studies*. He demonstrated familiarity with the works of the British classical political economy and the French liberal economic thought. However, Geshov mentioned in his recollections that he found himself increasingly influenced by the German Historical School, the doctrine of evolution and government interference in economic life.

Like Nachovich, the views of Ivan E. Geshov combined liberal economic principles and clear understanding that these principles would further need protectionism and government interference to encourage industrialisation, agriculture, vocational education, etc. The negative attitude towards the continuous increase of the number of public servants in the country can be highlighted among his specific liberal views. A couple of years after Bulgaria's Liberation he observed that there were too many public high schools around the country, and that they continuously produced candidates for public service, who grouped together around the political parties and entered into a severe fight for the limited number of civil service positions. On other hand, the political parties had stimulus for artificial creation of positions for public servants in order to satisfy the pretensions of their supporters. Thus, instead of directing young people towards business activity, public funds were inefficiently spent. (Geshov, 1886: 118-120)

¹⁵ In his memories I. E. Geshov mentioned Jevons influence on him for understanding social problems and cooperative ideas. Geshov was cited in a footnote by Vilfredo Pareto in his *Corso di economia politica*, Pareto, 2009 [1905], p. 355.

Strong influence of liberalism can be found in the views of Ivan E. Geshov with regard to the role of the state in economy. According to Geshov the state had the right and should interfere with economy, but such interference should not exceed certain limits. In his paper, entitled "Our Spending Budget", he insisted on the necessity to decrease budget expenditure and on fair distribution of taxes (Geshov, 1928: 360-361). In other paper he asserted that the creation of two new economic ministries in Bulgaria in 1893 would increase the tax burden over Bulgarians. He advocated that taxes should be moderate. As a criterion for moderate taxes he pointed out the words of Paul Leroy-Beaulieu, according to whom the taxes were moderate when their total burden accounted for no more than 5-6 % of the total income of the private persons. As estimated by Geshov, in Bulgaria at the end of 19th c. about 12,5 % of the income of the population went for paying taxes, which was far too much (Geshov, 1893: 577-581).

Geshov's liberalism was limited though. Still in his first scientific publications he stated that the principles of laissez-faire had become outdated and that the statesmen and scientists unanimously questioned these principles. Two key arguments urged him to criticise the established tenets of the Classical political economy. Firstly, this was the clear sign coming from the developed European countries. According to him, the fact that French, Germans and English paid more attention to the state interference in economy is a serious reason for Bulgarian politicians to introduce similar policies. The second argument in favour of increased government intervention in economy was of local origin. Economic backwardness, lack of sufficient capitals and private initiative weakness in Bulgaria required state support for the economy (Geshov, 1886: 122-123).

Geshov was the first Bulgarian economist and politician, who developed and published his views on how the Bulgarian state should encourage the economy. Among the key measures proposed by him was the implementation of protectionism. In his opinion, when new trade agreements were to be signed the Bulgarian state had to reserve the right to impose higher duties on those imported goods which were produced by the domestic producers. Among the measures Geshov insisted on was the adoption of a special law on industrial encouragement. In addition, Geshov urged on the development of a set of measures to encourage agriculture and stock-breeding, including state supplies of seeds, new breeds of stock, incentives for purchase of machines, organisation of agricultural exhibitions, etc. Ivan E. Geshov pointed out Romania as a model for similar economic policy (Geshov, 1886: 127-131). He considered that private initiative was not capable of overcoming the problems faced by small craft producers, and therefore both central and local authorities were required "to undertake the community beneficial task to revive our crafts." (Geshov, 1899: 151).

According to him in certain cases the government had the right to impose restrictions on private property, personal freedom and business initiative. In this regard, he recommended legislative measures to limit the number of taverns in villages and even considered that the debts, which the peasants had made by buying alcoholic drinks, should be declared uncollectable at court. He defended the need for legislative measures by which part of the property of the peasants would become inalienable. To the objection that the possibilities for peasant credit would be limited that way, he responded that peasants would be credited by governmental or municipal credit institutions rather than by private sources. (Geshov, 1895: 410-414). Geshov sincerely believed in the benefits of some forms of collectivism in Bulgarian economy, instead of defending individualism, which is typical for the liberal ideology. He dedicated special studies to two forms of traditional collective associations – the proto-cooperatives of gardeners in Central Bulgaria and the so-called „zadruga” (large family

with common property) in Western Bulgaria (Geshov, 1899: 324-325; 1899: 66-93), where he mostly observed some of its positive features.

By his activity as Minister of Finance in the period 1894-1897 Ivan E. Geshov was able to implement his views on how the state should support economy. On December 20th 1894 the National Assembly passed the Domestic Industry Promotion Act. Author of all the main principles in this law was Ivan E. Geshov, who drafted it in the two years before becoming Minister of Finance (Grancharov, 1998: 151). The act defined that all industrial enterprises established in certain branches 10 years after its adoption would be promoted for 15 years. The necessary conditions to allow benefitting from the privileges provided in the Act were that: 1) the invested capital in the newly established industrial enterprises should amount to at least 25 000 leva, 2) the enterprises should also have at least 20 permanent staff employees, and 3) be equipped with modern machinery. The factories were granted certain tax exemptions and were entitled to duty free import of raw materials and machines; a 35 % reduction of the railway tariffs for transportation of raw materials, machines and ready-made products of the new enterprises was envisaged; their production was preferred to that of foreign producers in the state or municipal procurement of supplies even where at equal quality the Bulgarian-made products were up to 15 % more expensive, etc. (Yochev, p. 158-159). The term of validity of this act was 10 years but the following 3 acts on encouragement of domestic industry which were passed by the Bulgarian parliament in the following years preserved many of the main formulations of the first act.

With the active involvement of Ivan E. Geshov in 1897 the Bulgarian government signed its first stand-alone trade agreement. It was signed with Austria-Hungary. The latter was the main trade partner of Bulgaria at the end of 19th c., being the largest importer of industrial and other goods into the young principality (Ivanchoy, 1896: 71-72). The preparation of the agreement was accompanied by a number of diplomatic complications, where Ivan E. Geshov firmly defended his view on the necessary increase of import duties on certain goods (Lalkov, 1993: 451-455).

The most favoured nation clause was included in the agreement. The import duties for Bulgaria were specified in Annex A. The most important novelty was that new specific duties were introduced to replace the old 8 % ad valorem duty for all goods. The highest duty of 25 % was imposed on the import of ropes and rope products, a duty of 20 % was imposed on the import of sugar, sugar products and window glass, a duty of 18 % on the import of coarse woollen fabric, spirit and spirit drinks, and candles, 16 % import duty on leather and leather products, etc. Increased protective duties were further envisaged for clothes, shoes, etc. The low import duty of 8 % was retained for machines, agricultural tools, for wood and wooden products etc. The import duty for the goods not listed in the Annex was agreed at 14 % (State Gazette, 1897, issue 71).

On the basis of this agreement by mid-1897 similar agreements were signed with Russia, England, France, Italy and Serbia (Statelova, 1994: 103). The agreements maintained the general principles of the agreement with Austria-Hungary and allowed for certain exceptions for duty-free import of coke (from England), bells (from Russia), etc. The agreements launched the real protectionist trade policy of Bulgaria. The protectionism initiated by Ivan E. Geshov may be defined as moderate compared with the late 19th-century tariff rates of Germany and France (Webb, 1980: 317; Webb, 1982: 313-314; Meadwell, 2002: 633). This

moderate protectionist policy was continued and further developed by the Bulgarian governments that followed at the beginning of the 20th century.

3 Georgi Danailov (1872-1939), the eclectic Professor

Georgi Danailov was the most renowned Bulgarian professor at that time. He studied in Moscow between 1891-1895 (with A. Chuprov, I. Yanzhul), later in Vienna, Berlin, Munich (with G. Schmoller, L. Brentano, maintained particularly close relationship with W. Sombart, with whom he kept correspondence and organized his visit to Bulgaria in 1932)¹⁶.

We can identify three major achievements in Danailov's works. The first one comprises his studies in the area of economic and financial policy where he clearly upholds the active interference of the state. The second encompasses his theoretical working papers and a number of micro-historical studies where his sociological and institutional approach is clearly outlined. And third, the publication of his famous textbook on political economy (editions 1906 and 1933/1934) where he made an appropriate educational synthesis of the major economic theories and approaches, basically of western and Russian scholars.

Especially interesting here is Danailov's position in "the discussion of the choice between industry and agriculture". In his article on customs tariff reformation in 1900 Danailov explicitly asserted that the right time had come to develop large-scale industry in the country and protect it through customs duties tariff. A great number of his arguments were the re-creation of the theories of prominent German scholars (List, Schmoller, Kautsky), of the German economic practice and to a degree the American example of protectionism (Carey). Developing an industry is seen as a new natural phase of the Bulgarian economy.

"If you would like to know my view on this issue, even though I have not yet gotten to the core of the principles of the economic science, but I have scratched the surface, if someone were to ask me "Would you like Bulgaria to become an industrial country?", I would in turn ask: "Would you like to become an educated and cultured man or would you rather stay with your elementary education you got in your birth town? – Would you care at all about your motherland Bulgaria being backward, sleepy, uncultured, and lifeless? ... Just like every person should seek to achieve perfection of mind; just as an individual country should seek to master ever higher culture, so every nation should strive to introduce industries because industry is a higher stage of economic culture than agriculture" (Danailov, 1900, 483)

¹⁶ According to Nathan, ed. (1973, 72), Danailov sent critical remarks about some of Sombart's ideas and received a letter dated 14.VI.1903 where he wrote: "I'm pleased to hear that my works were received with great interest by your university students... I should start with saying how grateful I am for your objective improvements which you made to some of my points as well as for the message supporting my applications from the Bulgarian practice. I will always find it very valuable to receive such messages and I would be very happy to keep in touch with you". From the beginning of his academic career and throughout his lifetime Georgi Danailov made reviews of the major western books on economics and finance. Thus in 1902 he presented to the Bulgarian public the books "Modern Capitalism" by Werner Sombart and "Agricultural and Industrial State" by A. Wagner. His passion for the German Historical School can be found for instance in his review of the book by the French classicist and liberal economist J. G. Courcelle-Seneuil where he observes that most French authors "stick to Seneuil's economics refusing to learn about the latest achievements of the economic science in Germany and even in England" (Danailov, 1901, 327). It is worth noting that later on Danailov who participated in the peace negotiations after World War I was also the one to popularise the books by John Maynard Keynes and Francesco Nitti fighting the viciousness of peace treaties (Nitti, 1922, v-vi, Bulgarian translation).

Within the frame of practical decisions Danailov proposed the establishment of a Customs Union of the Balkan countries to fight (“defend ourselves” from) “the most formidable competitor of our industry – Austria-Hungary”. After the example of Prussia, he anticipated for Bulgaria central place within this Union. It was due to the privileged position of the country in its relations with Turkey.

Danailov’s position triggered the highly argumentative and interesting response of the other leading economic scholar of that time – the elder **Boncho Bonchev Boev (1859-1934)**¹⁷ who flatly dismissed the ambitions for large-scale industry development (his proposals were similar to those made by Geshov). The rejection of the industry choice continued logically from Boev’s view of the delay and deterioration of Bulgaria’s economic development after the Liberation, which he believed was the result of the changing social structure, the shifting of tradesmen, craftsmen, farmers, etc. to the public sector and office workers, the emergence of the state apparatus and bureaucracy which destroyed initiative and enforced political intrigues and partisan bias (Boev, 1900, 1901).

Further on, providing facts for the period 1888 – 1894, Boev showed the insignificance of Bulgaria’s industry and the useless spending of funds by the state to encourage it, funds which were completely lost “for the treasury and for the people” (1901: 189-249). The root of the evil was the white-collar workers and the “factory for white collar workers” education that must be totally reformed). Danailov was criticised for his fully theoretical and mechanical transmission of List’s theories which according to Boev were written for a different time and a different country:

“Much as we would like to plant and develop large-scale industry in Bulgaria, our national economy will keep for a long time its prevailing agricultural character” (Boev, 1900, 719)

Agriculture, craftsmanship and small-scale industry will continue to prevail for a long time in Bulgaria (here Boev finds support in some of the views on the Balkan economies of the Belgian economist Emile de Laveleye); therefore they have to be protected. According to Boev, however, the proposal for a Balkan customs alliance was naive and did not take into account the political and economic interests of the Great Powers and the Balkan countries, or the differences in the “tastes and habits”, i.e. this too is theoretical (Boev, 1901a). Nevertheless, later on Boev (1909) promoted the idea of an economic and customs alliance of the agrarian Balkan countries under Russia’s leadership (he calls it Agrarian Bloc) against Austria-Hungary and Germany. The article critiques List’s theory according to which after a certain period of time the protectionist customs duties should be lifted, whereas Boev believed that the agrarian policy on the Balkans should continue for a long time¹⁸.

¹⁷ Boncho Boev studied in Russia and Germany, was BES chairman and subsequently BNB Governor (1906-1908).

¹⁸ In studying the discussion of the specifics of Bulgarian economy and its dominating sector it becomes clear that it reflects not only the economic necessity but also the fierce debate among the leading German economists, actually proponents of the historical school. Quite indicative is the fact that in 1905 the BES Journal published a summary report entitled “The Fight over the customs tariff in Germany”, with author P. Stoyanov, which presented the major points of agricultural protection and safeguarding (A. Wagner), industrial protection (L. Brentano), as well as a number of sociological, economic and political analyses which sound contemporary. The paper presents the views of a whole pleiad of scholars such as Schmoller, Sombart, Ditzel, Conrad, Pohle, and Dade among others. W. Ropke stressed the importance of “*Agrarstaat – Industriestaat*” controversy in Germany for the others countries as well (Ropke, 1942: 13).

Now back to Georgi Danailov, who upheld, as was already mentioned, that the historical, sociological and institutional approach were the leading ones. These approaches can best be seen in one of his essays written much later (in 1936), towards the end of his life. The essay was dedicated to the social and economic structure of Bulgaria and was written in the form of a report read at the Munich Academy of Sciences (Danailov was very active in the economic and diplomatic relationships between Bulgaria and Germany). Here the author's evolution is evident in his view on the character of the Bulgarian economy: now he believes that Bulgaria is a rural and agrarian country (when Danailov stood in favour of industry he was 28 years old, at the time he wrote the essay he was 64):

“Bulgaria is a rural country. This is not just a formal expression; this is a reality. Bulgaria is the peasant; the peasant is Bulgaria. Hardly anywhere else has the peasant's awareness of his power and significance for the country's life been so strongly manifested as in Bulgaria. [...]. Bulgaria is, I think, the only country where under a parliamentary regime there is not an agrarian, but a peasant party. [...]. The Bulgarian peasant is an excellent and passionate stock-breeder; good livestock is his ideal. He cares little where his child sleeps, this is his wife's concern; however the Bulgarian peasant never goes to sleep before he has seen to his livestock. [...]. when we speak of the social structure of Bulgaria we must place the Bulgarian peasant as a central figure from which all forms and relations of the life of the people in the country stem.” (Danailov, 1936, 3-6, the text in bold is as in the original).

In the essay, much in the spirit of the historical school, Danailov employs the evolutionary historical approach to the development of Bulgarian agriculture defining the various phases it has gone through to reach the finding that “The Bulgarian peasant today is the only full master of the land” (p.7). The author defines four periods, four phases, each next stepping on the preceding one. In Danailov's view the Bulgarian village follows an original and specific road of development which has its roots in the hierarchy of Byzantine feudalism adopted by the Old Bulgarian state and later on by the Ottoman feudal organisation of “spahiluk”. At the beginning of XIX c. the Bulgarian peasants began on their own, with labour and savings (economy), to buy back the land (according to L. Blanqui who visited Bulgaria in that period they were “the Germans on the Balkans”), this way serfdom was overcome in a peaceful way (unlike the situation in Russia) and the Liberation of 1878 found every peasant with land of their own. Opening of the economy and the inflow of capital after the Crimean war 1853/1855 gave a strong impetus to trade and crafts.

The second stage which lasted for about 25 years, starting after the Liberation until around 1903, was characterised by fragmentation of the land, disintegration of large farms and quickly growing population. It was also characterized by crises, falling prices of grain (1895-1903), growing debts of the peasantry, etc. The third stage which Danailov calls “horizontal or extensive development” beginning in 1905 and ending with the wars was manifested by a quick upswing, rise in the price of land, technical improvement, etc. To arrive to the fourth, post-war period when the agricultural crisis became structural and intensive agriculture had to be developed. Or, as the author calls it “an epoch of vertical development” of the Bulgarian agriculture, which by way of preventing further fragmentation could stand up against foreign competition. According to Danailov, a new epoch of “agrarian capitalism” was coming, which unlike Marx's prophecies had a potential for endless expansion and development.

When Danailov analyses the urban social structure in relation to the development of crafts and industry, his argumentation is “amazingly” similar to that of B. Boev, his main opponent from the “industry or agriculture” discussion period. Danailov points out that, within the Ottoman Empire, the Bulgarian tradesmen, craftsmen and industrialists, and the development of the Bulgarian towns in general were stronger than those in Serbia and Romania (one of the reasons the author gives is that the Bulgarian intelligentsia was kept outside the public life and governance which made it direct its energy towards economy). They were all the result of personal savings and labor. The Liberation brought with itself ruination and impoverishment; the rule of the day was foreign goods competitiveness, bureaucratization and change of tastes of the Bulgarian town population.

Of special interest is the presence of the German historical school in Georgi Danailov’s Political Economy Textbook from which several generations of Bulgarians have studied (first edition 1906; second edition 1933/1934, 662 pages). Already in the foreword to the first edition the author declares his theoretical and methodological principles:

“I grew up with the classical school system – Ricardo and Mill; I learnt from the German historians – Roscher, Schefle and Schmoller. From my teaching practice however I was soon convinced that the Bulgarian youth finds it very hard to understand the laws of political economy as these are laid down in textbooks drawn from observations of the life in Western Europe, England in particular. Therefore, I made a conscious effort to work out a systematic method whereby readers are introduced step by step to the various economic institutions; I introduced in my course of political economy lecturing economic entities, objects and technology from a historical perspective so that the reader going through the system existing in our country can rise gradually and consciously to the higher institutions of capitalism.” (Danailov, 1934 [1906], V-VI)

The textbook does not step on a general methodological basis; it is not a scientific work where categories, relations and general relationships are derived by step from and subject to a common systemic principle, either the principle of labor theory of value (objective) or marginal utility (subjective). Danailov chose a definite pedagogical principle akin to the German school where the structure starts with economic activities, with what can be seen in everyday life, and only at a second stage (on a second plane) does he examine the processes of production and distribution. This is largely possible in both the German and Slavic literature, either Russian or Bulgarian, due to the fundamental difference between “*stopanstvo*” (economy) (the economic activity as an organic part of the overall social activity) and „*ikonomika*” (economy) (the economic activity as differentiated and rationalized), (in Russian „*хозяйство*” and „*экономика*”, in German „*wirtschaft*” and „*ökonomie*”), a difference which cannot be perceived in the English or other Latin languages.

And further on:

“Our textbook examines economic institutions and phenomena following a special plan. A system of political economy following English or a French plan remains to a Bulgarian very obscure and many of the institutions are never fully understood. The reason is that our economic structure has never really been the same as the English or French one. It would be much easier if the Bulgarian reader approached step by step the high English economic system and understood in the first place what economy is all about, as a social product, its forces, its components, and the organization of its

numerous institutions. In other words, our intention was, on the one hand and in contrast with the abstraction of western authors, to introduce empirical means and elements drawn mainly from our life, and on the other – to present general scientific facts and principles in a pedagogical way where notions stem from one another – from the familiar to the new and unknown, just as the alphabet letters are introduced to a young student.” (Danailov, 1934, 26)

In his textbook Danailov makes reference to authors of different and even opposite theoretical schools. Thus, in the first and economic part, priority is logically given to the German and Russian authors, while in the second – to the classical school, the different syntheses (as the synthesis of M. Tugan-Baranovsky with regard to value), and the subjective Austrian school (in particular F. Wieser, E. Böhm-Bawerk, and to a less extent C. Menger). While rejecting monism and doctrinarianism, throughout his textbook Danailov sought to present different views and different authors.

The author’s historical method is always institutionally defined:

“The strictly historical method is not readily applicable in all cases; sometimes more valuable results could be achieved when the institutions are examined one by one from their embryonic forms down to their contemporary state while marking the political events of greater impact for the changes occurring to these institutions.” (Danailov, 1933, 8).

II. Monetary stabilisation, economic crisis and guided economy: toward the domination of the Historical School (Bulgaria between the First World War and the imposition of the Communist regime, 1918 – 1944)

During the period of the wars (1912-1919) market mechanisms were disrupted and the role of the state grew immensely. The social structure changed under the sway of the Bolshevik takeover in Russia in 1917 part of the population was radicalized. Bulgaria lost territories; its production and finances were destroyed; the external debts were growing, and in general Bulgaria became overdependent on its lenders. These lenders set conditions for the liberalization and dynamics of the balance of payments. The debt service required monetary and financial stabilization (initiated by the League of Nations) with the state playing a leading role. *De facto* currency stabilization was effected in 1924/1926 which was generally recognized as the first successful stabilization effort of its kind on the Balkans (The Economist, 1926, 1929)¹⁹. Bulgaria embarked on the road to liberalizing its foreign trade as proposed by the League of Nations in 1927. As a whole, the period 1919 – 1929/1930 (despite some episodes of protectionism and exchange control) could be characterized as prevalence of a new type of eclectic model, in which the elements of the historical school coexist and interact with elements of the conservative monetary liberalism where stable money and powerful state help each other. Although the share of Bulgarian economists which studied in Germany grew²⁰, they were still under the influence of the theories of the mainstream economists, League of Nations economists, and French and English representatives (such as Cassel, Fisher, Wicksell, Hawtrey, Aftalion, Rist, among many others ...).

¹⁹ For more see Nenovsky (2005).

²⁰ See Deyanova (1937).

Things changed drastically with the onset of the crisis in 1930/1931 when as a response Bulgaria and its elites chose or were forced to choose the German zone of economic and political influence. The state monopolized the foreign exchange market and actively encouraged Bulgarian production. Gradually, it built a network of compensation and clearing agreements. In 1933 a massive clearing agreement was signed with Germany. The Bulgarian economists, who at first considered the crisis a cyclical and transitional phenomenon, gradually realized its depth and structural character and that there was no way back (Nenovsky, 2012). At that point, as in many other European countries a variant of above-the-party system of organization of the economy started to be explored in the direction to a corporate model, national socialism, organic economy, directed economy, supreme economic council, etc. The theories that gained popularity were those of Werner Sombart, Giuseppe Bottai, Alfredo Rocco, and Mihail Manoilescu – some of them personally visited Bulgaria. Alexander Tsankov made an attempt at constructing a national socialist model of development to fit the country. He called bolshevism and fascism „*kupeshi formuli*/ready-made formulae” that had to be applied creatively in Bulgaria. Bobchev, on his part, put forward a new theory of foreign trade which provided instances where protectionism could be beneficial. His theory was a critical and relatively liberal response to the extreme protectionist theory of the Romanian economist Manoilescu. The deep transformation of the economy logically aroused interest in the theory of the stages and factors of economic development. Ivan Kinkel’s research efforts also followed in this direction. He put forward an original *eclectic* theory of his own.

1 Alexander Tsankov (1879 – 1959), the Bulgarian Sombart

Alexander Tsankov is among the most prominent representatives of the German historical school in Bulgaria. His impact is determined by two main factors. First, he held important positions in the executive and thus had a significant role in the political life of the country. Second, as a professor of Political Economy and Rector of Sofia University with a significant number of publications and he had the possibility to influence the formation of Bulgarian economic elite.

Al. Tsankov was born in 1879. He pursued Law at the Sofia University. Still in his student years he was involved in the political life of the country as a member of the party of the so-called broad socialists (Social Democrats), whose ideas were based on the Eduard Bernstein’s works and his refutation of the Marxian predictions about the imminent demise of capitalism. For that reason in the beginning of the 20th c. in Bulgaria there were sharp ideological clashes between the broad socialists and the so-called narrow socialists (orthodox Marxists). However, for Tsankov the socialist ideas were not just a youthful infatuation. Throughout his adult life as a scholar and politician he remained highly critical of capitalism, especially in its `laissez-faire` form. Tsankov adopted and implemented in his scientific works some of the basic theoretical postulates of Marx, but did not treat them as religious dogma. The broad socialists characteristic negative attitude towards political parties that claimed to implement all Marxist ideas in economics and politics persisted in Tsankov’s reasoning to the end of his life.

In 1904, Al. Tsankov went to Germany, where he studied political economy. His stay in Germany played a major part in the shaping of his theoretical and political views. In Munich he attended the lectures and seminars of L. Brentano, Georg von Meyer and Walter Lotts. Later on Tsankov moved to Breslau (1906), where W. Sombart taught, then he followed his

teacher to Berlin, and also attended the courses of G. Schmoller and A. Wagner (Tsankov, 2002). In his memoirs Tsankov left interesting characteristics of the way of teaching, political and scientific views, relationships and conflicts between the leading professors in German universities at the beginning of the twentieth century. He writes: "I have never heard a better speaker among university professors as Brentano. ... Of all the German economists nobody had exercised such an influence on me as Brentano" (Tsankov, 2002, pp. 22-23). For Sombart Tsankov said: "He had not the charming speech of Brentano for example, but he was speaking as a serious scientist who takes you over with the originality of his thought and with his flawless epic, smooth and logical presentation." (Tsankov, 2002, p. 34).

In Germany, under the supervision of L. Brentano, Tsankov began his first serious scientific pursuits. On Brentano's recommendation he studied in details the works of Alfred Marshall and E. Böhm-Bawerk. In Berlin, he began writing a doctorate "Capital and capitalistic production process in Böhm-Bawerk" under the guidance of W. Sombart. Al. Tsankov failed to complete and defend his doctoral dissertation because the Bulgarian Ministry of Education stopped his funding.

After he returned to Bulgaria in 1911 Tsankov became Associate Professor on Political Economy at the Sofia University, then participated in the work of governmental apparatus for regulation and control of the Bulgarian economy during the First World War, and in 1919 became Rector of Sofia University (Naumov, 2004). His rapid academic career did not satisfy (Al. Tsankov's) ambitions and he turned his attention towards (a) political career. After World War I the traditional democratic parties lost their credibility and from 1920 to 1923, the country was ruled by the populist regime of BAPU (Bulgarian Agrarian People's Union). On June 9, 1923 this regime was overthrown by a military coup. The leaders of the coup appointed Prof. Al. Tsankov as Prime Minister, for he had no connections with the influential pre-war political parties. He remained in this position until the beginning of 1926. His Premiership was marked by actual state of civil war and severe repressions against the communists. Al. Tsankov initiated the implementation of a number of economic measures which reinforced the governmental intervention and control over the economy. The main slogan of his government was the establishment of a strong state power. An expression of this slogan in the area of economic policy was the establishment of a government foreign exchange control, the prohibition of the importation of goods that are not basic necessities, the increase of export duties on certain goods, and the establishment of full governmental control over internal trade. The economic regime that Tsankov imposed on the country resembles that of the First World War and was completely opposite to the principles of economic liberalism (Stoyanov, 1992).

After being forced to resign as Prime Minister Tsankov remained actively committed to political life, and for a short time in 1930 - 1931, was Minister of Education (Bulgarian Public Institutions, 1987). Then he made an attempt to return as a professor at the Sofia University, but due to students' protests was forced to resign as a full-time professor of Political economy. In 1932 he founded his own political party, which later on was called *People's Social Movement* and which ideology was heavily influenced by Italian fascism and National Socialism. In the course of the World War II Alexander Tsankov was among the most prominent supporters and propagandists of national socialist ideas, especially in the social and economic spheres. However, he did not share the antisemitism of Nazis and participated in the rescue of Bulgarian Jews in 1943 (Petrova, 2011). With the withdrawal of German troops

from the Balkans Al. Tsankov emigrated from Bulgaria. The last years of his life he spent in Argentina where he died in 1959.

The scientific and theoretical legacy of Al. Tsankov in general is poorly known, even for Bulgarian specialists. It's assessments are based on a limited number of works and are ideologically stained (Grigorov, 1960, Avramov, 2007). The research activity of Al. Tsankov covers a period of about four decades, from 1904 until 1943. During these years he published numerous articles, studies, treatises, a textbook on Political economy (Tsankov, 1932), co-authored a study on the history of joint stock companies in Bulgaria (Tsankov et al., 1926), etc. As a political activist Tsankov pronounced and issued a large number of keynote speeches, propaganda leaflets, participated in the drawing of political programs (see eg. Tsankov, 1933). During the last years of his life he wrote and published two volumes of memoirs (Tsankov, 1998; Tsankov, 2002). The thematic scope of his publications is wide. These include papers on current issues of economic and foreign trade policy of Bulgaria (Tsankov, 1909, 1915), research in political economy (Tsankov, 1942), on the significance and consequences of the First World War (Tsankov, 1916, 1917; 1919), on the financing of wars (Tsankov, 1942b), on the status and role of cooperatives in the Bulgarian economy (Tsankov, 1904), on the nature and impact of the Depression of the 1930s (Tsankov, 1932), etc.

It is difficult to find any original analysis and theoretical contributions in most of his studies. As common characteristic features of his publications can be discerned - criticism of capitalism and economic liberalism, positive assessment of the government intervention in the economy, pursuit of scientific justification for ideas of social solidarity etc. In some relatively early publications Tsankov attempted to make original contributions to the field of economic theory. In 1910 he published his study "The Capital and the Profit from it" (Tsankov, 1910). In this study he analysed and criticised Adam Smith's views on the nature of capital. E. Böhm-Bawerk was also subjected to similar criticism. The tenets of the German Historical School were the main source of his criticism towards the liberal views of A. Smith and E Böhm-Bawerk. Tsankov believed that private capital is historical and legal phenomenon, and that the main precondition for the origin of capital and the capitalist mode of production is the appearance of the exchange economy. As social capital he determines the capital of the state, which, he said, is the most perfect cultural unit (Tsankov, 1910). In his theoretical reasoning Tsankov widely used the concepts of K. Marx, and other socialist writers such as Rodbertus. Probably under the influence of W. Sombart, but mainly because of his own socialist background Tsankov combined socialist concepts with those of the German historical school. According to Tsankov "only as a means of obtaining larger and more values money become 'capital'" (Tsankov, 1910, p. 41). Marx's theory of exploitation of workers by capitalists was also adopted by Tsankov (Tsankov, 1910, pp. 46-47). As the main source of the profits of the capitalists stands the unpaid labor (Marx). This, however, is not sufficient to explain the profit. So Tsankov added that profit depends also on "market conditions, on the situation, and speculative ability of the capitalist entrepreneur" (Tsankov, 1915b, p. 16).

In 1919 Al. Tsankov gave a speech on the occasion of his election as the Rector of Sofia University, which was published under the title "Money and their devaluation" (Tsankov, 1919b). Here is his most serious attempt to contribute to the field of economic theory. First, he gives his interpretation of the theory of Fr. G. Knapp for money as legal tender. Tsankov believes that from the definition of Knapp for legal tender can be concluded that the value of money is "something nominal, fictitious, invented by man, and established by the

government." Unlike Knapp, Tsankov is convinced that the value of money is real, "the unit value of money is an objective measure of our revenues or, in general, of what we deserve as an economic unit" (Tsankov, 1919b, p. 6). The Bulgarian author widely uses the theory of the Ukrainian economist Mikhail Tugan-Baranovsky on trade cycle in the capitalist system. Tsankov accepts the assertion that in the boom phase the purchasing power of money decreases, while in depression increases. The main reasons for the rotation of boom and bust periods are two. The first is the so-called capitalization of profits, i.e. the tendency for the capitalists to invest all their profits in ever expanding and increasing production, which results in overproduction. The second, and in some ways more important, reason for the trade cycle, is the credit expansion of the banking system. Tsankov writes: "The investment of these new means in the capitalist production increases the latter opens new and wide spaces, but the expanded individual companies' further increase imbalances in the distribution of economic forces" (Tsankov, 1919b, p. 16). After the exhaustion of available capital and the cessation of credit expansion, the economy goes into a state of depression. In Tsankov's explanation of trade cycle there is little fundamental difference in comparison to the concept of Tugan-Baranovsky (Barnett, 2001). Tugan believed that economic crises depend on the credit expansion, but the credit expansion itself is not among the reasons for them (Besomi, 2006), while for Tsankov the credit expansion is one of the two main reasons for crises.

In all of his studies Tsankov shows deep knowledge of basic economic theories and apparent preference for the principles of German historical school in their "original" or their Russian version. In the 1930s Tsankov made a turn to ideas that are close to fascism and National Socialism. In fact, he considered these two doctrines a realization of the socialist ideals which he supported from his earliest years. In 1940 Tsankov writes that the outbreak of World War II is "grandiose revolutionary era, perhaps much more spectacular than English and French revolutions". The essence of that new revolution is in the destruction of capitalism. Tsankov is adamant: "As a new social order that comes, I think that it is the socialist system, socialism, not Marxism, not Bolshevism." (Tsankov, 1940: 571, 577). As an example of such a new socialist order Tsankov shows Nazi Germany and Fascist Italy. Similar ideas Al. Tsankov developed in 1942, when he observed that the economic system in the USSR could be defined as bureaucratic state capitalism, while a prototype of socialism is Germany. Key features of the socialist society, according to Tsankov are: the introduction of 4-year plans, the state protection of agricultural production, limitation of private interests and aligning them with the public interests, distribution of wealth based on participation and merit, determination of profits by the state etc. (Tsankov, 1942). These words finally discredited Tsankov as scientist.

2 Ivan Kinkel (1883 – 1945), the eclectics of development

Ivan Kinkel was an interdisciplinary scientist whom we will refer to as a Bulgarian economist, although Russian by origin and education (born in Bryansk on 18 January 1883 and migrated to Bulgaria in late 1917²¹), has left a lasting trail in a number of fields of scientific knowledge.

²¹According to the University of Sofia Almanac, he came to Bulgaria in early 1917 before the October Revolution, a fact that coincides with the information given by Kiril Grigorov who wrote that Kinkel came to Bulgaria for health reasons after he had been a member of the Eser party (Grigorov, 1960: 128). Meanwhile, we found some new facts of Kinkel's life in the archival record of his wife – the sociologist Mara Kinkel (1885-1960). This record (National Archive, 620/1/22) contains Kinkel's biography in Russian. Here it becomes clear that Kinkel lost his right hand in the First Russian Revolution of 1905. He was personally invited by Lenin at the beginning of October 1917 to chair the Supreme Economic Council; however this nomination failed because of his and his wife's ill health. Kinkel and his wife then travelled to Bulgaria using a note written personally by Lenin to cross the Russian frontier. Unfortunately, Kinkel himself had to destroy the note during their transit

His versatile activities ranged from professorship in economic history, economics and history of economic thought at the University of Sofia (1921-1945) and the Free University of Sofia (1920-1945), through founder and first chairman of the Bulgarian Sociological Society (1931-1939) to founder of psychoanalysis in the country. His skilfulness could also be explained by his education: apart from legal and economic sciences in Russia (Emperor's College in *Tsarskoe Selo*) he also studied medicine in Berlin (1903-1905), graduated with a major in social philosophy from the University of Leipzig (1906-1908)²² and specialized in psychoanalysis in Zurich (1908-1911).

Kinkel's works extend to nearly all major social areas, economics, economic history, history of economic sciences, sociology, social psychology, law, philosophy, psychoanalysis, etc. All these studies are not at all disorganized; quite on the contrary, they follow a major goal, which is to find out and present his views on the mechanisms, driving forces, and forms of social and economic development. Kinkel was convinced that only a diversity of views looking in one direction could produce the necessary scientific result. This shaped his interdisciplinary approach, which he himself would often refer to as an "eclectic method" of making a theory²³.

In 1921, Ivan Kinkel published his fundamental study on economic development (312 pages), its cyclic character and dynamic forces. In Kiril Grigorov's view (a leading specialist in the history of economic thought from the communist period) this work of Kinkel's was known to the international scientific community (Grigorov, 1960, 51).

Before we look into the main analytical components of this theory it would be appropriate to summarize it. This has been done already by the author himself at the end of his book:

THESIS

The economic development of cultural mankind has passed through three major cycles. The first cycle was the economic culture of the ancient Egyptians, Babylonians, Persians, Chinese and Peruvians characterized by common, distinct features for all these peoples. The second cycle was the culture of the peoples of Greece and Rome – once again having specific features of its own. The third cycle was the culture of the West and East European peoples (Slavs), which from the XIX century onward became a world culture. In each of these cycles national economies evolved from primitive forms to most complex ones which always passed through four periods of economic development: 1) family (corporate – collectivist and communist form; 2) petty-individual; 3) capitalist (in three different forms – types); 4) state-collectivist (state-collectivist-oriented trends, respectively).

Between the three world economic cycles exists a continuity of culture. The Greek-Roman culture repeated from the beginning the forms typical of the Egyptian-

through Ukraine, which was at that time in the hands of the counter-revolutionary Nestor Makhno. In his wife's recollections, Kinkel said he was losing the autograph of "the most influential man of our century, the maker of a new epoch" (620/1/22/40). According to other sources, he came to Bulgaria as a member of Wrangel's army. See recent paper on Kinkel as an economic historian by Penchev (2012).

²² Mara Kinkel's archive record also contains Ivan Kinkel's diploma of his doctoral thesis on Aristotle's theology (*Summa cum Laude*) dated 8 July 1911 (MCMXI) and issued by the University of Leipzig with Ernest Hafter as his tutor and awarded by rector Arnold Meyer. Most likely, the diploma travelled with Kinkel from Germany to Russia and then to Bulgaria with his name written in Latin as *Ioanni Kinkel*.

²³ See Cardoso (2002) for the Portuguese case.

Babylonian culture to evolve thereafter along its own specific paths. The West-European culture too repeated from the beginning the forms of the first cycle, followed in the track and evolved the forms of the Greek-Roman culture, to come to its own unique new ways. The biogenetic law of development (phylogenesis – ontogenesis) is manifested in this continuity of the culture between the three cycles.

The dynamic forces of the economic progress of humankind have always been: the growth of productive forces, of consumption forces and the cultural needs of society. The economic activity of mankind intensified under the influence of these factors with each of the three economic and cultural cycles evolving its economic-social organization in a direction to the above four successive forms, each next of which being more intensive and better suited than the preceding one in terms of production, consumption and common cultural values.

A comparison between the three world economic cycles indicates a specific economic progress from cycle to cycle as well. Such a comparison reveals the major trajectories of the overall economic progress of humanity. This is a slow and gradual evolution in the division, specialization and differentiation of labour alongside the progress of the organizational concentration from cycle to cycle. This development and advance would have as its ultimate state of perfection the creation of a world economic and social organization encompassing all productive forces of humanity. (Kinkel, 1921, 305).

Thus, according to Kinkel himself, the main task, which the new theory has to solve, is to find out “what the economic progress and development of humankind is all about” (Kinkel, 1921, 285). The periodisation of economic and social history is examined on two analytical levels. The first, or fundamental level, is the level of the three economic eras, the three cultural cycles, or the three “rungs of mankind’s economic culture.” It determines the long-term and civilization dynamics of the economy. The second and more specific level is the level of economic forms, which, as already mentioned above quoting the author himself, are four. The four economic forms are reproduced within every era or cultural cycle. It is extremely important to take into account the fact that economic forms reproduce themselves and develop, while never really repeating themselves, so that new and unknown patterns appear with each new cycle. Any form of determinism in Kinkel’s model is instantly denied making it very much consistent with contemporary theories of chaotic, nonlinear, complex, and evolutionary forms of the development of nature and society.

According to Kinkel, the progress of economic or cultural periods is determined by the division of labour, as well as by the evolution of economic organizational forms within each period. A careful reading of the book reveals that behind these two factors, which the author repeatedly brings up, there are two other more fundamental reasons, which are technological developments and population dynamics. The role of technology and of the quantitative and qualitative structure of population²⁴ is often pointed out as instrumental in determining the character of a cultural period. Cycle I, for instance, is dominated by mining, Cycle II – by processing industry and agriculture, and Cycle III, also as a result of the differentiation of labour – by industry, transport, communication, etc.

²⁴ Kinkel always considered the role of demographic factors as fundamental and one that explains the processes between the wars. It is, therefore, not accidental that he thought highly of Thomas Malthus, to whom he dedicated a special study (Kinkel, 1941).

As for the moving forces inside each cultural period, that is, during the transition between the four economic organizational forms, three basic drivers emerge as dominant, namely the productive forces, the consumption forces, and the cultural and social needs (Kinkel, 1921, 39, 47-49, 305).

Looking further into the dynamics of *the four economic forms*, in particular into the debatable issue of the recurrence of these forms in the three cultural economic eras, the presence of capitalism and state-planned economy in the Egyptian-Babylonian and the Ancient (Greek-Roman) periods appears to be particularly interesting.

The outlook upholding the existence of capitalist relations in the ancient world is not new and was well-known to Kinkel from the works of Eduard Meyer, Theodor Mommsen, Max Weber, Joseph Kulisher and others.²⁵ This view of capitalism is in contradiction with the interpretation of Karl Marx's economic history, where capitalism is an independent phase that started in the XVIII century and is placed on the same analytical level as the antique (slaveholding) period, and on the level of the feudal period of development. In his course on the history of economic thought when presenting Marx's and Engels's system of political economy, Kinkel gave a critical analysis of Karl Marx's formational approach (Kinkel, 1939, 58-83). Kinkel's approach theoretically "undervalues" to a great extent the role of capitalism by placing it on a lower analytical level, i.e., not within the frame of civilization eras, but as some kind of economic form, which comes and goes in the alternation of the four economic forms.

Kinkel defines *capitalism* (economic form 3) as the existence of large income in kind or in money (not necessarily only money as Marx has it); a large-scale (*en grand*²⁶) economy, i.e. a wide market, an amalgamation of a large number of human work force, cooperation, and above all exploitation of free and unfree human labour (Kinkel, 1921, 16-21, 122, 231, 289-292). Capitalism existed in all three cultural periods; however, it took different forms, which, in turn, became ever more complex as a result of the development and division of labour, the appearance of new branches of the economy, etc. Capitalism, as observed for instance in Egypt, could be agrarian on a professional principle and a barter economy (3300 to 2000 B.C.), or agrarian as in the Chinese emperor period (2205 to 1766 B.C.), or agrarian and commercial based on slave and wage labour in Greece (from V century B.C. to the end of Alexander of Macedonia's empire) and in Rome (from V century B.C. to the Emperor period); privilege-based agrarian capitalism under feudalism, that is, feudal capitalism until XIII century) to come to the agrarian-commercial-industrial capitalism, to a capitalism based on market speculation in Western Europe (XVI-XVIII century) and Eastern Europe (a century later). Each next form of capitalism not only integrated the basic features of the preceding one, but it also offered new and more sophisticated economic elements.

The fourth form of economy, or the *state-planned* one, which inevitably comes after the capitalist economy in each of the three civilization eras, follows the same rules of integrating the preceding elements and an accelerated and more complex development. For instance, in Egypt, Greece and Rome, just as later on during the West and East European economic period, this fourth phase indicates a number of astonishing similarities with the preceding

²⁵Max Weber, for instance, analysed the difference between ancient and modern capitalism. Weber's views are subject to debate; see Spahn (2004), Schefold (2011).

²⁶ This term was actually not coined by Kinkel; it was popular in that period, for instance, in Gustav von Schmoller's writings, Schmoller (1905, 1906 [1900]).

forms, such as centralized planning, administrative and statistical control, nationalization of labour, predominance of politics over economy, etc.

Writing his book in the first years after the war (and most likely starting even earlier while still in Russia) Kinkel was aware of the obvious trend of transition of his contemporary western capitalism to this fourth, state-collectivist form of economy. He identifies such features involving planning and centralization, although not fully revealed, in the Bolshevik rule during the War communism. According to Kinkel, a number of economic phenomena from the Bolshevik economy repeat the most primary forms of state economy from the previous cultural periods (even as far back as the Egyptian period) such as the existence of state shops and food rationing, the destruction of money, the existence of state peasants, state employees and producers, etc. This system is characterized by exploitation too, which however is mostly power-based and hinged on political instruments. Within this fourth form, the author sees the focus shifting from nationalization to socialisation.

Later on, Kinkel made an extensive analysis of the above fourth form in the West-European period in his book entitled *Economic System and Social Structure of Contemporary European Society* (1930), where he criticized most of the orthodox Marxist explanations of the concentration of capital, ownership, class polarization, etc. This theme was again studied by the Kinkel somewhat later in a number of articles in the *Archive of Economic and Social Policy*, where he examined the evolution to a planned economy, the reasons and mechanisms of autarchy (in his view it is neither impossible nor efficient on a national basis, (Kinkel, 1937), the shortcomings of Werner Sombart's socialist model of national and closed economy (Kinkel [Mladenov], 1935), the nature and forms of non-party power, the crisis of party parliamentarism, analysis of fascism (Kinkel, 1933a, 1933b, 1934), the economic crisis as a way to a new type of social structure (Kinkel [Fridyung], 1934), etc.

It was already noted that the dynamics of economic forms is determined by the development of productive and consumption forces, and by the level of society's cultural needs. They "drive the peoples to advance to a more complex and more productive economy – social forms that would satisfy these forces and needs" (Kinkel, 1921, 288). By mobilising an extremely rich historical material, Kinkel shows the endogeneity of transitions between the various phases, illustrating his theses with numerous examples.

Similarly to the connection between the economic forms, there is a connection and continuity between the three cultural eras. Each new era carries the imprint of the preceding one, taking from it a number of key elements (thus, for instance, the Egyptian-Babylonian culture left its mark on the Greek-Roman culture in all of its forms). This makes it possible for every new culture, instead of starting from scratch, to step on what has been already achieved, which in turn smoothes the development at the beginning and gives better prospects for innovation of new economic practices at a later stage. Thus, for instance, Kinkel also gives as an example the development of the theory of economy and society, tracing in time the Egyptian-Babylonian collectivist ideas, which were further developed in Plato's social ideology, and from there transferred to and transformed further during the Mediaeval period (Thomas More, Tomasso Campanella), through the Industrial Revolution period (Saint-Simon, Fourier, etc), to eventually come to Marx, Engels, and even the Bolsheviks (Kinkel, 1921, 294-295).

With time, each new culture, having repeated past forms, heads forward to something unfamiliar until then. Kinkel brings as an example the western civilization, which, in his view,

started on new tracks only in the XIX century (Kinkel, 1921, 297-298) having followed in the track of the Egyptian-Babylonian culture until the XVII century (the absolute monarchies are akin to the Egyptian Pharaohs, the Babylonian kings and the emperors of ancient China), and in the XVII-XVIII centuries in the forms familiar from the Greek-Roman period (the English lords and German barons for instance fit perfectly into the mechanisms of the Roman agrarian and colonial system). The new movement was the result of the appearance of technical means and a large-scale process of division, differentiation and specialization of labour (Kinkel, 1921, 298-299).

The above reasoning and his knowledge in the field of evolutionary biology and sociology, allowed Kinkel to formulate the “law of social development” as a manifestation of a “universal biogenetic law of development” (Kinkel, 1921, 295).

Later on, in his fundamental work on methodology of sociology (1931), the author formulated the manifestation of this universal law in relation to spiritual evolution in the following way:

Its fundamental tenet, when applied to social psychology, states that the spiritual development of a higher species' individual repeats the stages of that development of the entire human species, that is, the development of all previous generations in general lines. (Kinkel, 1931, 295)

Undoubtedly, Kinkel was familiar with almost everything written before him. For example the representatives of the German historical school were criticized for their choice of purely technical or organizational criteria for periodisation, such as Karl Bücher's “road of development from production to consumption”, etc. A special attention was given to Werner Sombart's system's scheme (the book “Modern Capitalism”, 1902 that appeared in a number of his articles at the close of 1890s), which was admired by Kinkel and exhibited similarities with Kinkel's ideas. Sombart distinguished between four economic orders, or systems, each of which consisting of three steps: individual, transitional, and social, respectively), but this theory of his was rejected because of the “theoretical mess” (Kinkel, 1921, 29-32). Later on, Kinkel criticised Sombart on another occasion for his model of closed national “Mediaeval-oriented pseudo-national socialist economy” (in Sombart's book *German Socialism*, see Kinkel [Mladenov, 1935]).

Kinkel's model of economic development is the result of his overall view of the need for a synthetic and interdisciplinary approach to social and economic phenomena, and at the same time it serves as a starting point for his numerous studies that followed until his death in 1945 encompassing various topics and issues of social development (see for more, Nenovsky, 2013). From that point on, things are clear: all factors and mechanisms of economic and social development should seriously be studied and explained. Therefore, apart from economic factors Kinkel systematically examined a number of other factors of development such as legal and political factors, religious and ethnic factors, scientific factors, and aesthetic-artistic factors (see Kinkel, 1943, 29-32). Thus, for instance, Kinkel often pays attention to the ethical factors of economic development, which he examines in a special study entitled *The Ethical Factor in Economic History* (Kinkel, 1930). Kinkel pays attention to both external (exogenous) natural factors, i.e. the environment of economic subjects and internal (endogenous) nature – the psychic factors (Kinkel, 1943, 29-32). The former include the role of geography, climate, genetics, races, etc. (all of which are topics typical of the studies of the majority of systemic scholars of that period), which were discussed in his monographs “*Natural Factors in the Economic and Cultural Life of Peoples*” (Kinkel, 1942)

and “*Sociology and Biology*” (Kinkel, 1939). Along with the work on his “development” book, Kinkel dedicated a great number of his studies to social and individual psychology. Among these, of special interest is his book “*Social Psychology in Revolutionary Movements* (Socio-psychological and psychoanalytical essay on the psychology of revolutionary society)” (Kinkel, 1924), and “*Social Psychology of Revolutionary Movements*” (Kinkel, 1924a). As Kinkel sees it, psychological factors play the key role during revolutions, or as he often puts it: “the psychological revolution should precede the social one” (Kinkel, 1931, 54) and “the revolution dies politically because it has died previously in people’s psychology” (Kinkel, 1924, 84). The psychology of a revolutionary society and of many of its forms were extensively analysed mainly based on the facts of the French Revolution in 1789 and the process and personal observations of the October Revolution of 1917. In summary, Kinkel based his “law of psychological regression” of every revolutionary society on primitive psychic forms of behaviour. He consistently presents various manifestations, such as the idea that “degenerates often rise to positions of revolutionary leaders” (Kinkel, 1924, 128). Kinkel sees no disparity between the existence of this law of psychological regression and the possibilities to also see revolutions as a form of creation (and not only destruction) and definite social advancement (Kinkel, 1924, 21, 51, 85, 156).

3 Konstantin Bobchev (1894-1976), the case for protectionism

Konstantin Bobchev studied in Saint Petersburg (1913-1915), Sofia (1915-1919), and Germany, Baden, Heidelberg and Freiburg (1922-1924), defended doctoral thesis on R. Leifmann’s theory of marginal utility in Freiburg on 26 June 1924 (comparing Menger and Petrajitski). Later, he specialised in Leipzig (1929) and most importantly in the period 1934-1935 with the support of the Rockefeller Foundation and while working on the draft of his book, Bobchev spent time in London (London School of Economics), Paris and Geneva, where he met a number of authorities in the field of international trade (L. Robbins, Robertson, J. M. Keynes, R. Harrod, G. Haberler, Rappard, Ludwig von Mises, F. Oules etc.), who gave him an almost complete picture of the state of ideas and theories as well as the practice in the area of protectionism in addition to the German authors whom he knew well. Subsequently, over a long period with few breaks, Bobchev held a high position at the Ministry of Trade, Industry and Labour (1930-1943); was member of the Bulgarian branch of the European Customs Union (1931-1939), Bulgarian Economic Society Secretary, and lecturer at the University of Sofia (1926-1929; 1939-1947), at the Cooperative School (1925-1933), etc.

In 1937 he published a book with a title *An Attempt at a new Theory of International Trade* (Bobchev, 1937, 144 pages). The major ideas in the book on international trade published in 1937 were formed already in 1935 but Bobchev tried to integrate the best scientific achievements of the economic science from that period. In 1934, Bobchev received an annual Rockefeller grant for the purpose of studying the practice and theory of protectionism, which further suggests that in addition to his purely scientific and professional interests Bobchev had set a purpose to find an alternative to Michail Manoilescu’s theory (who visited Bulgaria in 1933) and this grant was mainly a chance to come to know the Anglo-Saxon theory and practice and the surviving liberal thinkers such as Mises, Haberler and Viner (for more on Manoilescu and Bobchev theories see Nenovsky and Penchev, 2013, Blancheton and Nenovsky, 2013) . Besides the author’s stay in England in 1934/1935, where he wrote the survey article about the history and theories of customs protectionism in England (Bobchev, 1935), a testimony of his profundity is the voluminous correspondence with prominent

specialists in the field, as for instance his correspondence with Haberler from 1935, where he delves into the theory of international trade²⁷.

Similarly to Michail Manoilescu, Bobchev saw the need for constructing a new theory of international trade, different from that of the comparative advantages of the classical school, a one that would cover the practice of protectionism and the striving for industrialisation of the Balkan countries.

Bobchev also believed that Manoilescu's protectionist theory was unsuccessful because, although he criticised Ricardo for the supposed homogeneity of labour, his too was built on the labour theory of value and on faulty premises of measuring and comparing the productivities of various types of labour. Already in the year of Manoilescu's visit to Bulgaria in 1933 when he delivered two lectures (JBES, 1933), K. Bobchev published a survey article on the theory of the Romanian economist (Bobchev, 1933), where he set forth his remarks, largely in the light of those made by other major authors.

Later, his critical comments continued in his article *Protectionism and Economic Science* where he upheld that none of the existing protectionist doctrines was built on a new theory of international trade able to prove the unsustainability of the classical one, and that man in his practice intuitively feels that situations exist where protectionism is economically justified, yet science denies it, then his faith in the economic science collapses (Bobchev, 1935, 469). Without explicitly saying so, it is clear that he does not share the main postulates underpinning Manoilescu's theory, namely the labour theory of value, and the possibility to measure the various types of labour, including their productivity. Just as it is impossible to aggregate the types of labour, to construct an average weighted value of productivity, and in general obtain an overall labour productivity at the national level – an important procedure in Manoilescu's model who is interested in the reasons for unequal exchange of national labour²⁸. These critical observations are best and most clearly formulated in the book in the parts on protectionism (Bobchev, 1937, 34-38; 143-144).

First, Bobchev's theory is a cross point between Bertil Ohlin's ideas of international exchange (based on neoclassical and geographic postulates) and the theory of development of the means of production with a long history starting with List, and which in Bobchev's book was worked out in a new and systematic way. It is exactly this synthesis of the two theories that should provide the answer as to when and under what circumstances protectionism would be appropriate. Unlike Manoilescu, the Bulgarian economist is not interested in the theories of value (as he himself admits using the modern theory of exchange, which is focused on factors influencing prices). Therefore the two postulates - of the labour theory and of the quantitative theory - are not considered necessary in constructing the theory of international exchange. Overall, Bobchev considered that the theory of international trade, and economic theory in principle, is developing by changing some of its premises, which is dictated by realities²⁹.

²⁷ In Bobchev's archive in *St.St. Cyril and Methodius* National Library in Sofia an archive record box No 279 is kept containing his correspondence with L. Petrazhitski (279/5/78), W. Sombart (279/5/90-92; 44/1), G. Haberler (279/49/1-3), A. Bilimovich (279/11/1-2), L.v.Mises (279/32/1), Walter Eucken, Leifmann and others (including of course the leading Bulgarian economists).

²⁸ Bobchev could have likely been influenced by the critique of Manoilescu's theory and especially regarding his concept of productivity, levied by the French author Firmin Oulès (1934), whom Bobchev met in France in 1935 and whom he explicitly mentioned in his book (Bobchev, 1937, 144).

²⁹ See his article *Economic reality and economic science* (Bobchev, 1938), where the author argued that Keynes' theory (including the ideas of imperfect competition) was an example of how prerequisites could change, i.e.

That he calls a realistic critique, i.e., a critique which questions and reevaluates the reality and feasibility of premises unlike the logical (immanent) critique, which accepts the premises while looking for problems concerned with the internal consistency of the model. A realistic critique implies underlining the historical and temporal moment in constructing new theories, especially their applied (rather than their purely) theoretical part.

Second, the author examines three groups of premises of the classical theory in international trade ranging from generic to classical theory (*homo economicus*, free competition, infinitesimal production units), through specific for the theory of international trade (labour theory of value, the theory of the mechanism of payments or quantitative theory of money) to most specific premises (transnational immobility of the means of production, absence of transportation costs and mobility of commodities, two commodities and two countries). In the theory of international trade in particular Bobchev argues that any logical (immanent) critique of the classical theory of comparative advantages is doomed to failure (Manoilescu is also partially critiqued for that), and this has the power of a mathematical truth (Bobchev analyses the models of Pareto, Burns, etc.). Of similar kind he believes are some of the failing attempts at a realistic critique of comparative costs, such as Taussig's critique of natural comparative costs (1927), Haberler's critique of monetary comparative costs (1933), "the classical theory of international trade cannot stand a realistic critique questioning the sustainability of the premises underlying the ancillary labour theory of value and the quantitative theory of money" (Bobchev, 1937, 66). These theories are trying to save the classical one, however unsuccessfully.

Obviously, a new road is to be explored and a completely new theory of international trade is needed, which the author advances in part II under the title *An attempt at a new theory of international trade* (Bobchev, 1937, 67-144). In order to accomplish this, Bobchev set the ambitious goal to amalgamate into one the theory of exchange and the theory of the means of production. Therefore he decided to keep the most general postulates of the classical doctrine (especially the postulate of free competition³⁰), remove those which are specific to international trade (labour and quantitative theories), accept the most specific ones, and most importantly - he introduces a new premise, namely the premise of the "*variability of the means of production*". Bobchev consistently set forth the pure and applied theory of international trade. But before that he discussed the main postulates and concepts of his theory (Part II, Chapter I). The main thing which draws the attention here is the synthesis the author makes between some of the basic concepts of Bertil Ohlin's theory, namely the distinction between a unimarket and a multimarket exchange, and the view on international exchange as a private case of inter-area intermarket exchange. International exchange is also characterized by the concepts of monetary community and community of income, which are very important – the first one in analyzing pure theory of trade, and the second – in analyzing its applied side (who wins and who loses within the framework of national income).

Third, of special interest is Bobchev's theory of the means of production, which according to him are "a concrete form of the three basic factors of production: labour, capital and land". These means are subject to quantitative and qualitative changes that could be reduced to four

become more realistic, and how theory can come closer to reality. Bobchev dedicated one of his first articles on the subject and method of the economic science right after his return from Germany (Bobchev, 1924).

³⁰ Keeping this premise is important because like Manoilescu, Bobchev too strived to work out protectionism within the framework of a liberal model. At the very end of the book he reminds of this premise (Bobchev, 1937, 144).

types, namely virtualisation, commercialisation, specialisation and qualification, and finally urbanisation, which could be considered as positive development (while the reverse processes – as negative development). Virtualisation or actualisation is observed where potential or hidden means become visible, virtual and actual (such as with unemployed becoming employed, unused land becoming used, savings are turned into investments, etc.). Commercialisation is roughly speaking the movement of the means of production from natural to exchange, monetary economy. Qualification and specialisation is when production factors improve (labour qualification is especially important here), and urbanisation is when population, and labour in particular, move from places of low living standard to places of higher living standard (this practically takes place as a rural migration to urban areas).

Forth, a positive development could be accompanied by sacrifices (costs and loss of profit) or without sacrifices (free of costs or loss of profit). It is exactly this distinction which Bobchev considers among his main achievements (Bobchev, 1937, 144), which makes him examine the exchange and pricing mechanisms of both the market of finished goods and the means of production market (Part II, Chapter II). Three economic agents (groups and/or players) are clearly identified on these two markets – consumers, entrepreneurs-producers and owners of the means of production. Here Bobchev examines the interrelation in pricing between the two markets. The role played by a dynamic change in the means of production in relation to supply and finished goods factors, and subsequently to prices of finished goods, is most clearly displayed. The author clearly points out that he is not interested in the problems of the “ultimate measure of value”, but focuses on the factors influencing price formation³¹.

These in his view are four: two on the demand side (the system of consumer needs and incomes) and two on the supply side (the amount of the means of production and technical coefficients). This way, the means of production market is integrated with the market of finished goods. It is exactly on this new market (new way of exchange) of the means of production, where the processes of variability of these means are displayed to their fullest, whose rationalisation is Bobchev’s major contribution. At this point Bobchev premises some configurations – invariability and variability of the means of production, and in the case of variability – two subtypes: sacrificial and non-sacrificial positive development³². When he comes to defining “sacrifice” however Bobchev, as he himself notes, makes a terminological contribution by defining it as “alternative utility” “*alterutility-cost*” instead of the often used “*opportunity cost*” (Bobchev, 1937, 89).

Thus forth, equipped with the above theoretical achievements, Bobchev could proceed to his major goal, namely the analysis of foreign trade and protectionism in particular. This he did in the next three chapters, where he consistently discusses pure theory of international trade (Chapter III), its applied side (Chapter IV), within which the case of protectionism, and finally a special analysis of this case (Chapter V). The main issue Bobchev brings up here to be addressed analytically is as follows:

³¹ We could presume that Bobchev followed Marshall’s and Tugan-Baranovsky’s models synthesizing objective and subjective factors of price formation. When analyzing the relationship between the two markets – the market of finished goods and the market of means of production, Bobchev often refers to the Austrian School postulates, derivation of the prices of factors of production from the prices of finished goods, uncertainty of market processes, and many other issues (with references to Mises, Wieser, etc.).

³² Furthermore, each of these combinations is graphically illustrated in relation to the four types of development of the means of production (commercialisation, specialization and qualification, and finally urbanisation).

“The issue of the costs and benefits to a national economy in relation to its international trade in our view amounts to establishing the impact of this trade on the amount of national income. Besides, we assume that a decrease in the price of products, an increase in entrepreneurial profit and remuneration of the means of production implies benefit, i.e. an increase in national income, whereas an increase in products, decrease in entrepreneurial profit and fall in remunerations of the means of production constitutes damage, i.e. a reduction of that income. When determining the impact of international trade on national income, we shall differentiate basically between two premises: A. The premise of invariability (or absence of development) of the means of production, and B. The premise of assuming such variability [...] The basic question that stands here is: How does international trade impact national income given that one way or another it conditions the development of the means of production in a particular country?” (Bobchev, 1937, 118-119, 121)

In order to resolve this task, Bobchev started with examination of the pure theory of international trade, where the markets of two countries interact via their trade flows and the changes in monetary factors (exchange rate and gold reserve movements). Bobchev’s analysis is graphical and he uses the method of representation introduced by Cunynghame (1903). The next and final step in the analysis is the applied theory, where, as Bobchev notes, of relevance are the income generation and destruction for the various economic groups (three economic groups – consumers, producers and owners of the means of production). We can see the difference with Manoilescu’s approach, who considers income (net income or surplus value) in aggregate, at the national level, and does not take into account losses and profits incurred by social groups³³.

Thus, most crucial in terms of substantiating protectionism is the applied theory of international trade. Once again the author examines the two cases: that of invariability and of variability of the means of production. In the first case, protectionism is clearly not justified because the advantages to entrepreneurs fail to make up for the losses to consumers and owners of the factors of production. This follows from the analysis in the Charts and from the areas showing the profits and losses incurred by these three entities. The second situation, however, that of variability of the means of production is more complex and is subdivided into two cases: sacrificial and non-sacrificial development of the means of production. Here, in some cases of non-sacrificial development protectionism is justified and customs duties on finished goods, while incentivising local production, could also generate an increase in the country’s overall net income; consumer losses are compensated by producer profits and the profits of the owners of the means of production.

Or, to cite the author:

“The conclusion here is that limiting international trade, which has caused a positive as well as non-sacrificial development of the means of production, has had a favourable effect on the country’s national income and therefore protectionism, from the standpoint of this country, has been economically justified, or vice-versa – free trade has not been in the country’s interest” (Bobchev, 1937, 124-125)

³³ Bobchev explicitly mentions the existence of theoretical hurdles in aggregating individual incomes from the viewpoint of whether individual values are subjective or objective, whether their significance is in terms of value or price; yet for the purposes of his study he prefers to assume as possible the summing up of individual incomes (Bobchev, 1937, 118, the lengthy footnote).

But as the author states while following his approach of concretely historical analysis:

“However, both cases, which we have so far examined, are extreme: the first one – of completely sacrificial, and the second – of completely non-sacrificial development of the means of production. It is clear that closest to reality is the midway case, where such development becomes partly sacrificial and partly non-sacrificial either because some of the means of production necessary for given country’s commodities develop entirely sacrificially whereas others develop entirely non-sacrificially, or because all means of production develop partly sacrificially and partly non-sacrificially.” (Bobchev, 1937, 125)

One more thing, when including in the analysis the state of income of the second country – the exporter, different combinations become possible, in most of which the means of production follow negative development and hence a loss of income occurs. “This also disproves the thesis of the free trade theory which holds that in all cases of international trade there is harmony between the interests of participating countries.” (Bobchev, 1937, 127)³⁴. This way, although in a different and much “milder” way, Bobchev shares the idea of asymmetry and unequivalence in international exchange, which are central in Manoilescu’s model.

Finally, in the end of his book, as if trying to make it easier for the reader, Bobchev gives the main characteristics of his protectionist argument comparing it with other major authors and shows the new, which he offers and which contributes to the development of the protectionist theory. Bobchev is definite that only a consistent and iterative application of a realistic critique, i.e. of converging theoretical models to reality, could bring about positive scientific results.

“The main tenets, underpinning our protectionist argument, could be formulated as follows: 1) The quantity and quality (type) of the means of production, which a country possesses, are not constant; 2) The increase in quantity and improvement in quality (= positive development) of the means of production could occur not only through sacrifice, but also without sacrifice; 3) When achieved without sacrifice, the positive development of the means of production could only be realised if their owners receive certain remuneration (= price of the means of production); 4) If foreign competition does not allow for a local demand that can pay for the means of production the prices necessary to make this positive development possible, the latter could not occur; 5) When the loss which the owners of the means of production could suffer as a result of foreign competition thwarting their non-sacrificial positive development is higher than the loss suffered by consumers in relation to a protectionism allowing for such development, then this protectionism is economically justified [...] If this theory too is to be regarded as a stage in the development of protectionist doctrines, it should perhaps be said that it has contributed to this development in two aspects: 1) because, by using the term “development of the means of production”, which covers both the formation of new and the transformation of already existing means of production, it expands the scope of a possible favourable impact on the protection of production and 2) that the differentiation between “sacrificial” and “non-sacrificial” development makes it altogether possible to identify the pure benefit a country could reap in relation to such impact. Besides, we should

³⁴ All this applies in the case of restricted mobility of the means of production among the countries – a fact which is fully consistent with the realism of Bobchev’s hypotheses.

not forget that, while trying to keep within the framework of the premises conditioning “free trade”, this theory does not at all exhaust the pro-protectionist arguments that could be built based on an even more realistic approach to economic reality.” (Bobchev, 1937, 134-135, 144)

It would be interesting to note that unlike Manoilescu, Bobchev does not explicitly set himself the task of bringing to the fore a concrete sector to protect and promote, as is the case with industry in Manoilescu’s theory. Bobchev tries to be as general as possible and work out a methodology to determine which type of sectors and activities should be protected. Nevertheless, it could be considered that at some points views similar to Manoilescu’s could be perceived, namely that industry is the progressive sector or that it meets the criteria for positive (and sometimes free of sacrifice) development of national means of production.

III. Conclusion. Reflexions on the historical school in Bulgaria

In this paper we have presented the first elements of one possible *historical* reconstruction of the German historical school in Bulgaria in the period 1878 – 1944г.³⁵ The preliminary outcomes can be summarized as follows:

First, the main postulates of the historical school (organic and multi-causal development, stage character and evolution, the role of moral and ethics, the empirical and inductive method, etc.) which claimed to be a general theoretical model for newly emerging and backward economies, suited well the interests of the basic social groups and the intellectual views of the newly formed Bulgarian elites. In this sense, the historical school is closely related with the theoretical models of economic nationalism. This “*suitability*” grew over time to reach a peak during the 1930s. In a sense, the dominance of the Marxian model after 1944, which followed, preserved this trend to the extent the major principles of historical materialism were a variety of the principle of historicism.

Second, in Bulgaria the main dominating components of the historical school followed its own evolution (old, young and youngest historical school) while also intermingling with other major components of other theoretical schools. Thus, for instance, right after the Liberation, in the theoretical views of the Bulgarian economic scholars a specific synthesis emerged with the ideas of the classical liberal thought (G. Nachovich, Ivan Evstatiev Geshov), after WWI with the postulates of monetarism and conservative public finances (A. Lyapchev, G. Danailov), and during the 1930s with the ideas of organic and directed economy (A. Tsankov, K. Bobchev). This eclectic interaction, within which the influence of the historical school increased, brought about evolution of the character of the “Bulgarian economic nationalism” (*liberal, monetary-conservative* and *integral, corporate*). Especially significant for the Bulgarian economic thought was the warm receipt of the Russian economic historical school even if only for the fact that this school came from a Slavic and Orthodox country. In this direction, in the future a number of interesting episodes could be explored associated with the Orthodox ethics and Slavonic tradition. A curious fact to mention here is that within the currency stabilization framework 1924/1928 the leading Bulgarian economists resorted on many occasions to the arguments that sound finances and stable currency were a “moral” condition for the development of the common Bulgarian corresponding to their “innate and

³⁵ For more details see Shionoya (2001).

proverbial” propensity to save (sense of economy), orthodox humbleness, the ambition to keep out of debt, to take care of family and children, etc.

Third, purely in terms of methodology, the Bulgarian economic scholars did not differ essentially from the representatives of the historical school; they shared the principles of empirical observation, realism and inductivism. Unlike them, as already noted, they were much more eclectic and less ambitious. That is mostly typical of the first specified periods, basically until the onset of the Great Depression in 1929. A typical manifestation of the German-Russian historical school was the greater attention given to studying public finances and budget (Georgi Danailov’s first publications were entirely in that direction, Danailov, 1896³⁶). Subsequently, (like the youngest generation representatives of the historical school such as Weber and Sombart), some of the Bulgarian economists sought to construct theoretical models of their own. Examples of this are I. Kinkel’s theory of development and K. Bobchev’s theoretical justification of protectionism.

³⁶ The two papers were written when G. Danailov is 24 years old, and one year after his return from Russia.

Bibliography

Abbreviations

BAS – Bulgarian Academy of Sciences

AESP – Archive for Economic and Social Policy

HSC – Higher School of Commerce, Varna

ASSFAS – Annual of the State School of Financial and Administrative Sciences, Sofia

AUS (FL) – Annual of the University of Sofia, Faculty of Law

JBES – Journal of the Bulgarian Economic Society

NL – *St. St. Cyril and Methodius* National Library

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