https://doi.org/10.53656/his2025-6s-11-bul

Economic Theory and History

BULGARIAN ECONOMISTS IN THE 1930s ON THE ECONOMY OF THE THIRD REICH

Dr. Rumen Andreev, Assoc. Prof.
University of National and World Economy

Abstract. Germany experienced significant economic successes and political and military defeats in the 20th century. It initiated and lost two world wars, leading to severe consequences for its economy. This paper presents analyses by Bulgarian economists who were contemporaries of the Third Reich. During this period, the Bulgarian economy was closely linked to the German economy and followed its state-regulatory policy. The study focuses on publications in the journal of the Bulgarian Economic Society, the most authoritative economic publication at that time. Many prominent economists in Bulgaria were members of the society and published in its journal. From these publications, it is evident that there was sufficient empirical data on the economics and politics of Germany and Bulgaria during this period. The study is limited to analyses by Bulgarian economists of Germany and its economic relations with Bulgaria, without delving into theoretical interpretations of socialism versus capitalism or of planned versus unplanned economies. In Nazi Germany, there were no five-year plans, and private property existed.

Keywords: German economy; Third Reich; Bulgaria; Bulgarian economists; clearing trade; compensation deals; price control

Introduction

The world between the two World Wars underwent the greatest economic upheavals – the ruin of the countries that lost World War I, the emergence of the first socialist state, and the Great Depression. Economic policies based on fundamentally different economic theories were applied in practice. Germany, which lost World War I, was forced to pay reparations that were unbearable for its economy, leading to a decline in production, unemployment, and hyperinflation in the 1920s. After the forgiveness of foreign debts, the German economy stabilized in the early 1930s. With the arrival of the National Socialists and the implementation of state-regulated economic policy, the country began to experience economic growth. Bulgaria's economy had been closely linked to Germany since World War I, so events there also affected the Bulgarian economy.

Bulgarian economists during that period were some of the best in the history of Bulgarian economic thought, although they were supporters of various economic schools, they made in-depth analyses of the financial situation in Germany. In their studies, Bulgarian economists focused on the German economy, which serves as model for a regulated capitalist economy. This differs from the planned economy of socialism. The debate between socialism and capitalism is almost non-existent in their analyses (Penchev 2017) Their analyses of the economy of the Third Reich were influenced by the fact that most of them had studied and specialized in Germany. The author of the first textbook on political economy in Bulgaria, Prof. Georgi Danailov, had speciality training in Germany, where he met Prof. Werner Sombart, with whom he became friends, and both of them kept a correspondence for many years (Bekyarova 2010, p. 122). In 1932, at his invitation, Werner Sombart visited Bulgaria, which was a major event for the Bulgarian economists. Konstantin Bobchev defended his doctoral thesis in Freiburg in 1924; Georgi Svrakov defended his doctoral dissertation in 1925 under the supervision of Werner Sombart in Berlin. Stancho Cholakov studied in Berlin. Dinko Toshev studied in Hamburg. Asen Chakalov, Dimitar Mishaikov, Simeon Demostenov, Naum Dolinski /German University in Prague/, Stancho Cholakov, Georgi Svrakov studied and specialized in Germany (Bekyarova 2010).

Bulgarian Economists on the Germany economy

After World War I, Germany was imposed to pay reparations of 269 billion gold marks, which were reduced to 132 billion marks in 1921. The annual payments were too much for the German economy and a relaxation of payments followed. In 1924, the Dawes Plan was adopted according to which the annual amount paid by Germany was between 1 and 2.5 billion marks (Yanulov 1933). The author of the plan, American Vice President Charles Dawes, received the Nobel Peace Prize in 1925 for developing it. Further to reducing the annual reparations payments, the Dawes Plan also provided for a loan to restore the German economy. The agreed loan amounted to 800 million gold marks to be granted by 1929 by American banks under the supervision of the US State Department. The loan granted made the German economy dependents on the American one that was why the Great Depression in the US had a particularly severe impact on the German economy. Germany's reparation payments were again lowered with the adoption of the Young Plan at the Hague Conference in 1929, when Germany's annual contribution was reduced to 660 million marks, and at the Lausanne Conference the entire amount due was reduced to 3 billion marks, which will be paid in bonds (Yanulov 1933). At the Lausanne Conference, held in 1932, the victorious countries of World War I also signed a moratorium suspending the reparation payments from the defeated countries.

The economic situation of Germany in early 1924 was disastrous – low purchasing power of the mark, lack of credits, and disorganization of production. The confidence of foreign investors was low, thus the German industrialists could not obtain the loans they needed to reorganize heavy industry. After the fall of the socialists from power and the adoption of the Dawes Plan in August 1924, Germany received the necessary loans that facilitated the strengthening of its industry, which developed extremely profitably during the period 1926/29 that also affected the country's foreign trade. The economic crisis that began in 1929 in the USA caused the withdrawal of American loans from Germany, unemployment and paralyzed German industry. A rescue plan for the German economy was again needed, this time worked out by American President Herbert Hoover (Yankov 1937a). The governments of Germany between 1929 and 1933 believed that the country could get out of the economic crisis by maintaining deflation and selling production on foreign markets. According to Georgi Svrakov, the reduction of wages and prices after the inflation of the 1920s with the relatively high prices of consumer goods was impossible without direct intervention by the state. In December 1931, the government adopted a law according to which the so-called related prices, determined by cartels, unions, etc., were dropped down by 10%, and a State Commission for the Prices of Unrelated Goods was established and the interest rates on long-term loans and wages were reduce. The government did not recede the prices of agricultural goods, which were very low (Svrakov 1943, p. 41). In 1932, industrial production in Germany decreased by 40.2% compared to 1929, with the decline being the greatest in the metallurgical, mining and machine-building industries. Foreign trade decreased by 60% over the same period, while the agricultural income during the years of the crisis fell by 30% (Sazdov et al. 1987, p. 298).

The Great Depression had a particularly adverse effect on the German economy, which had not recovered since the end of World War I. In 1932, 68,000 enterprises went bankrupt, and 8 million people were unemployed in the country. The Weimar Republic proved unable to counteract the economic crisis that exacerbated social contradictions and led to the National Socialists coming to power in 1933. The economic policy of the National Socialists was statist in nature. The goal was not only to restore the economic growth, but also to restore lost territories and markets. That policy was implemented through state regulation of the economy and the creation of a strong military industry. The state managed the fields of production, finances and human resources. The adopted laws on cartels, the economy and defense and labour established firm state control over the economy. The management of the German economy was carried out by the Main Economic Council, which redistributed financial, human resources and raw materials primarily to the military complex, at the expense of other sectors of the economy. State participation in joint-stock companies increased. This policy of state intervention in economic activity proved effective for heavy industry and ensured a rapid rate of economic growth in 1934.

The National Socialists' programme included large-scale public works, and the goal they set was to reduce the unemployment, create conditions for the development of the military industry, and carry out tax reform. The National Socialists' plan provided for budget expenditures to exceed revenues. All banks were under the control of the Reichsbank, which paid out bonds and "notes" to the state treasury, used for the payments made by entrepreneurs to suppliers, while the wages and interest rates were paid in cash. In practice, every economic activity was advanced, and no entrepreneur was deprived of the credit he needed, without the necessity to increase the money in circulation. For each "note" issued, there was actually work done and no conditions for inflation were created. The concept of "price" did not exist in the Third Reich, and every good and service was exchanged at a certain rate. The unemployment control was carried out through various public programmes, financed through loans, reaching in 1933 the "huge" sum of 5 billion marks (Yankov 1937).

The economic policy pursued by the National Socialists included: golden standard suspension, government programs for public construction of autobahns and defense lines, national industry protection, expansion of credit, employment programmes, regulation of prices and production, increase in military spending, control over capital, family planning, unemployment insurance, etc. The aim was to stimulate consumption and the creation of new means of production by reducing taxes. The state directly created employment through various public programmes. The "notes" for financing entrepreneurs were carried out by the state, with their term being from 3 to 6 months and were accepted and paid out at any bank. The Reichsbank paid the banks by issuing government treasury bills on the maturity date. Due to this economic policy, the state revenues increased from 6.6 billion marks in 1932/33 to 17.7 billion in 1938/39, and the national income from 45.2 billion marks rose to 77.7 billion in 1938. The great state intervention in the economy aimed to increase welfare and obtain more funds for armaments through its own military industry, which created higher employment and profits (Chakalov 1939a).

The tax policy of the Reich comprised measures that relieved the tax burden. New cars were exempt from taxes. A law entitled the companies to include as expenses the investments made for new installations, which until then had been levied with high taxes that reduced their profits. New industrial buildings and housing were exempt from taxes. In 1936, the income tax was reduced by 10%, with families having one child with an annual income of up to 6000 marks paying no tax, and workers with an income of 80 marks per month were also exempt from tax (Yankov 1937, p.61).

One of the main economic problems during the Great Depression was the decline in prices. In Germany, the wholesale price index fell from 1929 to the end of 1933, as democratic governments maintained a deflationary policy. With the advent of the National Socialists, a policy of increasing credit and public works began, which caused prices to rise. A similar policy was followed by the United States, which followed a Keynesian economic policy of public works (Hristoforov 2010, vol. II, p. 17).

In the preface to the German edition of The General Theory of Employment, Interest and Money (1936), Keynes considered his theory to be more easily applicable to the conditions of a totalitarian state than to the conditions of free competition. Keynes himself shared that he was inspired by the economic policy of Nazi Germany for the militarization of the economy and the use of alternative monetary and non-monetary means to control unemployment and stimulate production. Keynes' theory showed an economy in depression that could be restored through state policy. Bulgarian economists accepted this theory as a new stage in the development of capitalism (Nenovsky & Andreev 2013, p. 40).

During the period 1935–1938, military spending in Germany increased, with almost half of the growth in national income due to the rise in these costs – 47%, while the share of personal consumption was only 25% (Tooze 2010, p. 14). After the beginning of World War II (1939), Germany undertook the following financial measures aimed at stabilizing the war economy: taxes were increased, state spending for non-military purposes was reduced, municipalities and regions contributed part of their revenues to the state budget, prices of goods were normalized, etc. The goal was to preserve the state's production capacity in a period when industry was restructured for military purposes. Consumption was reduced in order to finance military spending (Chakalov 1939a).

The policy of militarization did not solve a number of problems of the German economy, such as expanding the domestic and foreign markets, restoring the financial system, etc., which the National Socialist government did not even try to solve. These problems could cause an economic catastrophe, and only the aggressive foreign policy that began in 1935 managed to prevent it, but the involvement of Germany in various military conflicts led to the outbreak of World War II.

Unemployment

In 1935, the number of unemployed dropped down by 1/3 compared to 1934. In 1938, the German economy was at full employment, and there was even a labour shortage. The unemployed were slightly over one percent. The economic recession in the European countries in 1938 did not affect Germany and its trading partners, including Bulgaria. According to the employment, industrial production and trade indices, an economic upswing was observed in Germany. According to Asen Hristoforov, the economic cycle for the period 1936-1938 was different in totalitarian countries, including Germany, from countries with a liberal economy. In totalitarian countries, employment was constantly increasing, as in Germany in 1938 there was a labour shortage, while in the Anglo-Saxon countries with liberal economies, employment was decreasing (Hristoforov 2010, vol. II, p. 19).

In 1936, wages and prices were frozen, with the aim of preventing wage increases due to the high demand for labour force. The economy was deprived of a mechanism for directing labour resources and it was required to administratively determine the industries in which labour was needed. Labour exchanges monitored and directed workers through employment books and cards, and in 1937, they prohibited agricultural workers from leaving the branch and looking for another job. Prior permit was required for metal-processing workers in case they decided to change their profession. A decree on labour mobilization was adopted entitling the Reich to redirect labour force for purposes of state and political importance. The wage freeze forced employers, who were inclined to pay higher wages because of the boom, to attract workers by improving working conditions through various social benefits /low rents, retraining, rapid career development/ (Tuz 2010, p. 87, p. 90).

The Third Reich's Economic Ties with Bulgaria

Germany sought to expand its trade in the Balkans by exchanging industrial goods for raw materials and agricultural produce. Bulgarian exports to Germany exceeded imports in the period 1931/34, as after 1935 imports from Germany increased. Bulgaria exported tobacco and food of animal origin, fruits and vegetables, etc., and imported machinery and tools, textiles, etc. Bulgaria's exports to Germany in 1936 were 47.5% of the country's total exports, while imports of German goods from total imports in the same year were 61% (Nerezov 1939). In 1936, Bulgaria's exports to Germany rose fivefold compared to the period 1907/11, increasing sharply after the beginning of the economic crisis in 1929, and accounted for over 50% of the country's overall exports. Using 1929 as a base, S.S. calculated that the index of Bulgaria's exports to Germany went up from 100 to 232 in 1936, i.e. more than doubled.In 1938, after Germany annexed Austria and the Sudetenland, the demand for raw materials by the German industry increased, and Bulgarian exports to Germany were already 58.87% of the country's total exports, to Italy it was 7.58%, to England – 4.79%, respectively, to the USA – 3.41% (Yanchulev 1939). Bulgaria exported agricultural produce to Germany such as tobacco, eggs, grapes, etc., with Bulgarian tobacco being the commodity that had firmly established itself on the German market. The exported Bulgarian goods were not competitive on the German market, but the export was carried out due to "*fortunately combined for us monetary and political moments*" (S. S. 1937, p. 345).

According to Asen Hristoforov, the similarities in the economic policies of Germany and Bulgaria before and after 1933 were due to common reasons, and not to imposition by Germany. The application of currency restrictions and import quotas in Bulgaria had no connection with the implementation of the same policy in Germany. After 1933, Bulgaria pursued a policy of increasing the prices of agricultural goods and increasing the purchasing power of farmers, while in Germany, public construction was intensified and intensive armament began. The execution of the 1932 clearing deal between Bulgaria and Germany was initiated and imposed by Germany. The existing clearing facilitated the large state compensation transaction concluded in 1934, which normalized the tobacco market and the armaments that had begun in Bulgaria. The peculiarities of the German economy after 1933 – the increased production of investment goods and weapons and the import of food and consumer goods – were favourable for Bulgaria, which produced and exported these commodities to Germany. The basis of the clearing was the overvaluation of the German mark against the lev, in which German importers offered higher prices than those on other markets, thus ensuring a market for Bulgarian producers where more than half of Bulgaria's exported output could be sold at prices higher than the international prices (Hristoforov 2010, vol. II, p. 20).

Table 1. Bulgarian Trading – clearing and non-clearing

Years	% of clearing to total export	% of exports to Germany	% of clearing exports to Germany	% of non-clearing exports	% of clearing to total imports	% of imports from Germany	% of imports from Germany from clearing imports	% of non-clearing imports
1934	78.97	48.05	60.84	21.03	78.3	48.87	62.4	21.7
1935	77.25	49.48	68.09	22.75	80.19	59.82	75.11	19.81
1936	69.44	50.53	72.78	30.56	81.7	66.67	81.58	18.3
1937	62.52	47.11	71.91	34.48	79.9	58.22	72.82	20.1
1938	77.24	58.86	76.21	22.76	74.02	51.43	70.22	25.98
1938a	71.68	51.49	71.78	21.4	74.74	54.1	72.38	25.32
1939a	72.81	59.43	81.63	27.19	80.89	61.04	75.46	19.05

Source: Hristoforov 1939, p. 48.

Due to political reasons and the protectionism imposed by France and England, Bulgaria's trade was tied to Germany's, with our country exporting mainly agricultural products through clearing transactions. The import quotas, trade contracts and bill of exchange agreements concluded by the Bulgarian National Bank aimed, in the conditions of limited international trade, to supply the Bulgarian economy with the necessary goods and raw materials for consumption and production, by protecting the Bulgarian economy from cheap imports and speculation with the prices of goods.

The beginning of World War II (1939) led to even greater state intervention in economic activity. Despite the economic policy of autarky, which prepared for war, international trade was conducted under relatively free conditions. The outbreak of the war led to changes in the economic conditions, imposed by restrictions on maritime trade, political and economic uncertainty. States, even those that had recently adhered to free trade, limited exports of goods necessary to the population or the army and controlled imports, foreign currency, and prices (Chakalov 1939).

The Bulgarian economy's connection with the German economy also had negative aspects. After Germany's military failures against the USSR in 1942, the inflation in the Eastern Bloc and the occupied countries increased. The devaluation of the German mark on international markets and the preservation of its parity with the Bulgarian lev led to an active trade balance in clearing, which, after the beginning of World War II, affected the external value of the lev. The export of Bulgarian goods to Germany exceeded the import from there, with the difference remaining on the BNB's clearing account in the Reichsbank. Bulgarian exporters received levs from the BNB, which raised the number of banknotes in circulation, in order to achieve an increase in the prices of goods in the country and an inflationary devaluation of the lev (Hristoforov 2010, vol. I, p. 415). The economic collapse of the Third Reich began from the periphery – the economic difficulties of the occupied countries and allies.

Conclusion

Germany's economic problems were caused by large debts, imposed after World War I. The forgiveness of Germany's debts made it possible to restore the economy and achieve economic growth in the 1930s. The policy of protectionism and state regulation of the economy eliminated unemployment and increased production output. Bulgarian economists considered the German economy's model during the Third Reich to be positive. There were no criticisms of Germany's economic policy regarding protecting the free market and state non-interference. The Bulgarian economy during this period was strongly tied to the German one. Bulgaria, a rural country, produced agricultural products and raw materials, which were purchased by state monopolies and exported to Germany. Imports from Germany were primarily industrial goods for consumption, rather than for production. Bulgaria's foreign trade was entirely controlled by the state through clearings /state barter/ and quotas. The growth of the German economy under National Socialist economic policy led to an upsurge in the Bulgarian economy as well. Germany economically lost World War II before being defeated on the battlefield, which also affected the Bulgarian economy. In the Bulgarian economic press and in analyses by Bulgarian economists during the 1930s, there was no debate on the theory and policy of market- or state-led regulation. There is also no defence of a free market, which did not exist in Germany and other European countries following an economic policy of autarky. The political economy propaganda favoured the state-led economy. Bulgarian economists analyse the benefits of trade between an industrial capitalist country like Germany and an agricultural country with extensive agriculture like Bulgaria, without defending free international trade.

REFERENCES

BEKYAROVA, K., 2010. *Ikonomicheskata misal v Bulgaria ot sredata na XIX vek do sredata na XX vek*. Sofia: Universitetsko izdatelstvo Stopanstvo. ISBN 978-954-644-127-0.

CHAKALOV, A., 1939. Novi nasoki na nashata stopanska politika. *Spisanie na balgarskoto ikonomichesko druzhestvo*, vol. XXXVIII, no. 8, pp. 469 – 481.

CHAKALOV, A., 1939 a. Finansirane podgotovkata na voynata i na samata voyna. *Spisanie na balgarskoto ikonomichesko druzhestvo*, vol. XXX – XXXVII, no. 10, pp. 585 – 603.

HRISTOFOROV, A., 1939. *Razvitie na stopanskia tsikal v Bulgaria 1934 – 1939*. Sofia: Pridvorna pechatnitsa.

HRISTOFOROV, A., 2010. *Asen Hristoforov – izbrani proizvedenia i dokumenti,* t. I, BNB, Sofia. Available from: https://www.bnb.bg/bnbweb/groups/public/documents/bnb_publication/pub_history_heritage_ah_01_bg.pdf.

HRISTOFOROV, A., 2010. *Asen Hristoforov – izbrani proizvedenia i dokumenti*, vol. II, BNB, Sofia.

NENOVSKY, N.; ANDREEV R., 2013. *Balgarskite ikonomisti za Golyamata depresia. Izdatelski* kompleks- UNSS. Sofia. ISBN 978-954-644-517-9.

NEREZOV, V. 1939. Germansko-balgarskite stopanski otnoshenia. *Spisanie na balgarskoto ikonomichesko druzhestvo*, vol. XXXVIII, no. 2, pp. 120 – 121, vol. XXXIX, no. 10, pp.680 – 682.

PENCHEV, P., 2017. Rakovodeno stopanstvo i ikonomichesko planiraneteoretichni analizi i debati sred balgarskite ikonomisti prez 30-te godini na XX vek. *Nauchni trudove na UNSS*, vol.2.

SAZDOV, D. et al. 1987. *Stopanska istoria.* Sofia: Nauka i izkustvo.

SVRAKOV, G.,1943. Normiraneto v Germania, *Godishnik na vissheto darzhavno uchilishte za finansovi i administrativni nauki,* vol. III, 1942 – 1943.

S. S., 1937. Znachenieto na germanskia pazar za balgarskoto narodno stopanstvo. *Spisanie na balgarskoto ikonomichesko druzhestvo,* vol. XXXVI, no. 6, pp. 344 – 355.

TUZ, A., 2010. *Ikonomikata na Tretia rayh*. Sofia: Ciela. ISBN: 978-954-280-855-8

YANKOV, L., 1937. Novata finansova politika na Germania, *Spisanie na balgarskoto ikonomichesko druzhestvo,* vol. XXXVI, no. 1, pp. 55 – 63.

YANKOV, L., 1937a. Pouki ot finansovoto zazdravyavane na Germania. *Spisanie na balgarskoto ikonomichesko druzhestvo*, vol. XXXVI, no. 1, pp. 492 – 497.

YANULOV, I., 1933. Svetovnite finansi v nova faza i Bulgaria. *Spisanie na balgarskoto ikonomichesko druzhestvo,* vol. XXXII, no. 2, pp. 71 – 87.
YANCHULEV, B., 1939. Cherti na stopanski plan –proizvodstvo, pazari i saobshtitelna sistema na Bulgaria*, Spisanie na balgarskoto ikonomichesko druzhestvo*, vol. XXXVIII, no. 7, pp.418 – 428.

✉ **Dr. Rumen Andreev, Assoc. Prof.**
University of National and World Economy
“8th December” St.
1700 Sofia, Bulgaria
E-mail: randnik@abv.bg