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## **Protectionism and Protectionists Theories in the Balkans in the Interwar Period**

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## **Théories et pratiques protectionnistes dans les Balkans durant l'entre-deux-guerres.**

### **Résumé**

*Cet article propose une analyse comparative des travaux originaux de Mihail Manoilescu (1891-1950) et Konstantin Bobchev (1894-1976) sur le thème du commerce international. Leurs théories protectionnistes sont resituées dans le contexte de l'entre-deux-guerres et mis en rapport avec le retard de développement des économies roumaine et bulgare de l'époque. Ils critiquent les argumentations classique et néoclassique : pour une économie spécialisée dans le secteur de l'agriculture ou les gains de productivité sont moins élevés que dans le secteur industriel la spécialisation peut, sous certaines hypothèses, ne pas être porteuse en termes dynamiques. L'article analyse en détail les contributions théoriques de ces auteurs, leur portée, l'arrière plan épistémologique, les hypothèses qui les fondent, leurs limites. L'article cherche aussi à montrer en quoi elles ont inspirée des « auteurs tiers-mondistes » et en quoi elles peuvent être utiles aujourd'hui pour comprendre par exemple la controverse Bairoch (Bairoch, 1999 [1993] ; Becuwe et Blancheton, 2011).*

**Mots-clés :** croissance économique, protectionnisme, théorie protectionniste, Roumanie, Bulgarie.

### **Protectionism and Protectionists Theories in the Balkans in the Interwar Period**

#### **Abstract**

*This paper makes a comparative analysis between two unique theories of international trade and protectionism which emerged in Bulgaria and Romania during the period between the two World Wars as a response to the specific economic environment and the spread of economic ideas coming from economically developed countries. These are the general theory of protectionism based on Mihail Manoilescu's (1891-1950) ideas of national productivity and the theory of international trade and productive forces forwarded by Konstantin Bobchev (1894-1976). Probing into the two theories allows the formulation of interesting academic and purely practical assertions and ideas that could help understand the trajectories and limits of the independent development of peripheral European economies. As in the past, so today, Bulgaria and Romania share more or less similar problems – those of the catching-up economies, lack of own capitals, severe strain on their balance of payments, dependence on the leading countries in the European Union, etc. Following this logic, a look back at the “protectionist past” of the Balkan countries opens new possibilities of highlighting the so-called Bairoch paradox, which claims the positive impact of protectionism on economic growth, and which in a sense comes into conflict with the main postulates of free international trade (Bairoch, 1999 [1993]; Becuwe, Blancheton, 2011).*

**Keywords:** economic thought, theories of protectionism, protectionism, Balkan economies, Bulgaria, Romania

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## I. Introduction

On 5 November 1933, at 10:30 a.m., in the hall of the Bulgarian Academy of Sciences in Sofia, Prof. Mihail Manoilescu read in French his report entitled “Economic inequality across nations”<sup>1</sup>. In front of the elite of Bulgarian economists, amongst whom Konstantin Bobchev who invited him to visit, Manoilescu said:

“The doctrine we have worked out in our treatise entitled “Theory of protectionism and international exchange” (*Théorie du protectionisme et de l'échange international*, Paris, 1929) highlights the flaws of free trade and provides economic reasoning in support of the opposite policy, i.e., that of protectionism. This doctrine steps on one extremely significant fact – the fact that productivity differs across branches and areas of production. [...] The huge disparity between agriculture and industry is obvious. In Romania, the work of 8 agricultural workers creates the value generated by the work of 1 industrial producer, whereas in Bulgaria the ratio is 1 to 10, 20. This difference in productivity between industry and agriculture creates the vast inequality between industrial and agricultural countries, which is reflected in their exchange of goods. Industrial countries exchange industrial goods, which they produce by one unit of labour for agrarian goods, which agricultural countries produce by 10 units of labour. This economic supremacy underlies the wealth of industrial countries. [...] The aspiration of agricultural countries for industrialisation is actually their desire to eliminate or at least reduce this inequality. This is a socialism of nations which is even more essential and revolutionary than that of classes. Indeed, industry contributes to the wealth of entire nations just as agriculture holds entire nations in poverty. [...] Every agricultural country needs, by the way, to seek to create an industry of its own. [...] They should not look for foreign capital; they should avoid pursuing policy in foreign countries that leads them to economic dependence and slavery.” (Journal of the Bulgarian Economic Society (JBES) 1933, 680-684)

And Manoilescu finished in these words, which echoed in the hall<sup>2</sup>:

“Should the existing economic inequality among nations continue, we could not expect to see a better future for the world. Not only the economic, but also the political cooperation among nations could no longer be based on economic inequality. The road to a better future is the road of economic equality among nations.” (JBES, 1933, 684)

Some eight years later, the Bulgarian economist Konstantin Bobchev presented to the public his own theory of protectionism and international trade (in his book entitled *Studies on the theory of international trade*, Polygraphic Printing House, Sofia, 1937), where quite out of Manoilescu’s revolutionary style and on different conceptual grounds he attempted to show under what conditions a country could benefit from protectionism.

Our paper has several objectives. First, to present, from the perspectives of the evolution of economic thought, some original protectionist ideas generated in the European periphery – Bulgarian and Romania in particular – as a response to the specific economic environment and the

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<sup>1</sup> That day Ambassador V. Stoyka gave a reception at the Romanian Embassy in honour of the Romanian Professor and Senator, and a dinner was held at the “Balkan” Hotel attended by the leading Bulgarian economists and representatives of the two Bulgarian economic societies, ministers, etc. On 6 November, M. Manoilescu was accompanied by train to Rousse by Dr. Mishaykov, K. Bobchev, A. Chakalov and N. Popov. According to Manoilescu’s memories, during their travel they actively discussed his theory in German, a language he obviously found difficult to express himself (Manoilescu, 1993, 352). On the whole, Manoilescu was fascinated by his visit to Bulgaria, which he thought was among the most remarkable events in his life in 1933. About details, see also JBES (1933).

<sup>2</sup> Those who are familiar with the hall in the Bulgarian Academy of Science also know that every word pronounced there resounds even when the word is nonsense.

spread of economic ideas coming from economically developed countries<sup>3</sup>. The economic thought of the Balkan region has not been sufficiently studied and is not well known to western readers. The interest in the practice and theory of protectionism and economic nationalism occasionally awakens with new force mostly in periods of deep economic and social crises. Such is the case today when in most countries theories and practices long forgotten or rejected, such as those of economic socialism, protection of national productions and of industry above all, are revived. The wave of protectionism and economic socialism is yet to come and these processes remain unclarified within the theory of European integration. We all know that as paradoxical as it may be, the theory of the processes of disintegration has not been developed although in history integration and disintegration have crossed and alternated each other at almost similar frequency.

Second, by means of a comparative analysis of two original theories of protectionism originating in the interwar period in Romania and Bulgaria – that of Mihail Manoilescu (1891-1950) and of Konstantin Bobchev (1894-1976), respectively, it becomes possible to formulate interesting theoretical and purely practical assertions and ideas that could help us understand the trajectories and limits of the independent evolution of peripheral European economies. As in the past, so today, Bulgaria and Romania have more or less similar problems such as a catching-up development, lack of own capital, severe strain on their balance of payments, dependence on the leading forces in EU, outside EU, etc. Following this logic, a look back at the protectionist past opens new possibilities of highlighting the so-called *Bairoch paradox*, which shows the positive influence of protectionism on economic growth and which in a sense is in conflict with the basic postulates of free international trade (Bairoch, 1999 [1993]; Becuwe, Blancheton, 2011).

Whereas the theory of the Romanian economist Mihail Manoilescu, or *General theory of protectionism* as he calls it, published as a complete work for the first time in 1929 under the title *Théorie du protectionnisme et de l'échange international* (éd. Marcel Girard, Paris) is fairly well known, was almost immediately reviewed by the leading specialists in this field, and subsequently incorporated within the theory of unequal exchange and the industrialisation practice in Latin America, the book of the Bulgarian economist Konstantin Bobchev came largely as a response to Manoilescu's and his visit to Bulgaria in 1933 and was released in Bulgarian in 1937, (*Studies on the theory of international trade*, Polygraphic Printing House, Sofia), has never been translated into other languages and is not familiar to Western readers. It is true that Bobchev made a number of unsuccessful attempts and held a long correspondence with renowned economists (Haberler, Robbins, Viner, etc.) in relation to the book's publication (it was prepared for release in English and German); it is also true that some of his ideas were rendered in German and French in various reports and statements; however this theory remains unknown. It is also worth noting that besides being leading theoreticians of international trade and policy in the two countries as well as participants in the scientific discussions of that time, Manoilescu and Bobchev were, at various times, directly involved in trade policy and management in the two countries, were authors of basic customs laws, of laws on the protection of national economies, and participated in drafting international trade agreements and in negotiations.

The structure of the article follows the above stated objectives. In the beginning, in order to shed light on the contextual background for the emergence of the two protectionist theories, Part 1 makes a short review of the history of protectionism in Bulgaria and Romania and of the main ideas and approaches to the specifics of development of the economies in Bulgaria and Romania. Parts 2 and 3 set forth in succession the theories of Mihail Manoilescu and Konstantin Bobchev. Part 4 makes a comparative analysis of the two theories from the perspective of their kinship with other

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<sup>3</sup> See the interesting monograph which traces the evolution of international trade, including protectionism, recently published by Bientinesi (2012).

theories of protectionism and provides some directions for their possible reconstruction and for practical policy making.

## **II. Bulgaria and Romania: a brief history of protectionism**

One of the most interesting and complex contemporary studies of economic nationalism in Eastern Europe, including the Balkans, is that of Thomas David (David, 2009), in which the author views the policy of protectionism as part of economic nationalism, which has gone through three stages, namely: i) that of protectionism within the Ottoman empire (1800-1870) where the role of customs policy and protectionism was not a key one, ii) of liberal economic nationalism after the nations gained their independence (1860-1914) where the customs policy was mainly fiscally oriented and protectionism was realised primarily through providing incentives to industry, and iii) that of pure economic nationalism (1918-1939) where the aim was protection of national production and its development by means of separating national economy from external trade and a search for new models of economic development. It is exactly within this last historical stage when the theories here discussed emerged.

The protectionist measures and ideas in Bulgaria and Romania follow in the main the logic of world economy while they also carry a number of specific features which, apart from the extreme backwardness, were also a result of the conflict between the common interests and the geopolitical constraints imposed by the Great Powers. The common interests (between Romania and Bulgaria) were realised already before Bulgaria's liberation from the Ottoman rule (1877/1878) when some of the leading figures of the Bulgarian national revival discussed the idea of establishing a Bulgarian-Romanian state. The common interests required that immediately after the establishment of the Bulgarian principality negotiations for building a bridge on the Danube between Bulgaria and Romania should start. The intervention of the Great Powers and a range of other factors led to the realisation of this important for the regional trade idea only in 1954 (Penchev, 2006). A curious fact is that already in 1900, during the first years of the newly established *Bulgarian Economic Society* (1895), Georgi Danailov advanced the idea of a Balkan Customs Union to counter the aggressive policy of the Austro-Hungarian Empire (Danailov, 1900), in which the main protagonists were supposed to be Bulgaria and Romania.

We start with Romania, which gained economic independence long before Bulgaria and had definite experience in building its national economy.

### ***Romanian trade and protectionist policy***

The principalities of Wallachia and Moldavia, which formed the core of the later Romanian national state, fell under the control of the Ottoman Empire in the XIV-XV c. These however were never fully incorporated into the imperial economic and administrative system and preserved many of their institutions. Around XVIII c. the local Christian aristocracy controlled the land, which was cultivated by serfs (Jelavich, 1983). After the Treaty of Adrianople in 1829, the two Romanian provinces Wallachia and Moldavia gained some degree of economic independence, including customs independence, within the vassalage to the Ottoman Empire; however only after the establishment of Romania in 1859<sup>4</sup> was there a decisive step in the formation of the national economy. From this moment until 1875 a number of laws on the protection of the national industry

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<sup>4</sup> The history of Romania's trade policy is described in Baicoianu (1904), Angelesco (1920), Filipesco (1930), Gheorghiu-Ciafi (1932), Madgearu (1939), and the monetary reform during the interwar period – in Ionesco-Ivanoff (1929), Gheorghiu (1930), Salamon (1934), Madgearu (1940), Blejan et al. (2009), and Stoescu et al. (2007). On the Balkan countries in general see Pasvolksy (1928) and David (2009).

were adopted and custom duties raised and in 1864 an agrarian reform consisting of lands redistribution took place.

An attempt at a first autonomous tariff was made in 1874. However in 1875 Austria-Hungary forced the signing of a trade agreement, which was very much to the disadvantage of the budding Romanian industry, providing for a free import of goods (primarily industrial) produced in the Habsburg Empire. The Romanian agricultural goods however were heavily taxed upon import in Austria-Hungary. This in practice hampered both the development of the local Romanian industry and the export orientation of its agricultural production. The agreement expired only in 1886 with the introduction of a protective tariff with fiscal and protectionist purposes. What followed next was the customs war with Austria-Hungary (which ended in 1892-1894), and the reorientation of Romania's trade. Primary importer of industrial goods for Romania became Germany while Romanian agricultural products were exported mainly to Belgium, Germany, Great Britain and France. In this sense, the first serious effort towards protectionism was the Costinescu tariff of 1904/1906, whereby customs duties rose in average from 10% to 15%. By this move, Romania actually followed the example of its neighbouring Great Powers – Russia, Germany and Austria-Hungary – which pursued persistent protectionist policy.

After World War I, under the Peace Treaty of Paris, Romania expanded overnight thrice in territory and twice in population as a result of acceding Bucovina, Transylvania, Bessarabia and South Dobrudja – an act which by itself changed to some extent the structure of Romania's economy. Thus, the oil industry came into being and became a leading branch, however it also required fresh capital and investments in machines and technologies (see table 1).

**Table 1 Structure of National Income**

	1914	1929
Grain and derivatives	68,64 %	30, 71 %
Oil and derivatives	18,22 %	32, 80%
Wood and wood products	2,73 %	14, 74 %
Cattle	2, 53 %	6, 26 %

Source: Filipescu (1930, 131)

Following a period of inflation and speculative establishment of numerous shareholding companies, the issue of monetary and financial stabilisation become imperative and with the help of western experts (mainly French) and an external loan issue it was resolved in 1929. One of the levers of this stabilisation (in the absence of foreign currency reserves for the coverage of money supply and gold reserves confiscated by the Bolsheviks) was the consistently applied high customs duties which started with Titulescu (1921), continued with Brătianu (1924, 1926)<sup>5</sup> and reached their ultimate form with Manoilescu in April 1927).

The Law on the Customs Tariff of 1927, which was personally drafted and passed by Manoilescu, was not only a decisive step towards a protectionist defence, but was already based on the theory created by Manoilescu himself. According to this theory, industry becomes absolute priority of economic policy, a priority which corresponds with the new realities and is the only one to raise the overall productivity of the country. At the close of 1928 the political shift brought into power the Agricultural Party and leader of the economic and financial team became Virgil Madgearu who was Manoilescu's main intellectual competitor in the field of economic policy making. Although with time Madgearu overcame his negative attitude to industry, he nevertheless sharply changed the priorities in a direction to agrarian protectionism while industry was treated only as an ancillary

<sup>5</sup> Brătianu is the author of the slogan „*Prin noi însine*” (“By ourselves alone”).

instrument for the development of agricultural economy (as for instance customs duties on agricultural machines were reduced, etc.).

The new tariff was adopted on 1 of September 1929. The customs duties under Madgearu were lower, more moderate and were in general much laxer compared to Manoilescu's tough position as regards the recommendations issued by the Economic Committee of the League of Nations in Geneva in 1927, which required foreign trade liberalisation. As we shall see further, Manoilescu's book is as a whole directed against the spirit of Geneva (*l'esprit de Genève*)<sup>6</sup> very much like today's attitude against IMF and the World Bank held by a number of Bulgarian and Romanian economists. In his turn, Madgearu strived to resolve the problems of the Balkan countries and the significant drop in the prices of their products, which he saw as primary and urgent, by means of negotiations held by the newly formed Agrarian bloc whose chairman and leading economist was Madgearu himself<sup>7</sup>. Of course, the techniques of protectionism also included foreign exchange control and, later on, various types of compensation and clearing schemes which aimed to preserve the foreign currency reserves and protect a number of national productions. Both Bulgaria and Romania actively employed them and to some extent almost synchronically. The laws on encouraging industry also pursued the same goal.

### ***Bulgarian trade and protectionist policy***

Turning to Bulgaria, we can notice a few similarities as regards the predominantly agricultural character of its economy; production and export mainly consisting of cereals; lack of industry and free capitals; dependence on the import of foreign capitals and industrial commodities, etc. The two countries however differed significantly in their basic economic and socio-political characteristics mainly because Bulgaria gained its political and economic independence later; its foreign trade policy was held back by the Berlin Treaty in 1878 (after the Russian-Turkish War in 1877-1878), etc. Similarly to the Romanian municipalities until 1859, Bulgaria too was divided. Under the Berlin Treaty part of the country was given autonomy under the name of Principality of Bulgaria while Eastern Roumelia was given relative independence vis-à-vis the Ottoman Empire. Bulgaria had to undergo structural changes, which, unlike Romania, were not associated with territorial expansion. In 1885 Eastern Roumelia reunited with the Principality of Bulgaria but the wars the country waged in early XX c. were unsuccessful. The Balkan Wars of 1912-1913 ended with the Treaties of Bucharest and Tsarigrad in 1913: despite the relative expansion of the territories, the country lost some of its economically most developed regions. The so-called "granary of Bulgaria" or Southern Dobrudja was occupied by Romania. The Peace Treaty of Neuilly in 1919 put an end to Bulgaria's participation in World War I. The country was on the losing side which placed it into external political and trade isolation vis-à-vis its Balkan neighbours and the winning Great Powers.<sup>8</sup>

While still in the beginning of its autonomous economic and political development, Bulgaria had to comply with the economic and trade conditions imposed by the authoritative Great Powers. First, right after the Liberation in 1878, according to art. 8 of the Berlin Treaty (the capitulations), Bulgaria was compelled to preserve for 12 years, i.e. until 1890, the customs regime which Turkey had signed in 1861/1862 with the major economic centres (Austria-Hungary, Germany, Russia, France, England, Italy, etc.) and which consisted of 8% ad valorem duty at a fixed price list and

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<sup>6</sup> The same term is used not only by Manoilescu, but also by Filipescu (1930, 159).

<sup>7</sup> About the Stresa Conference see Chakalov (1933), and about the London Conference see an article by Stoyanov (1933) which discusses Madgearu's plan. According to N. Stoyanov, a participant in the Bulgarian delegation, only between the Bulgarian and the Romanian delegations there were concerted actions as regards the claims of agrarian countries.

<sup>8</sup> The history of Bulgarian trade policy is described by Danailov (1900), Chakalov (1902), Scherbanoff (1909), JBES (1911), Baldaci (1929), Gabenski (1933), Kalinov (1935), Nedelchev (1937), Bobtcheff (1939); on monetary stabilization and foreign exchange control see Koszul (1932), Mollov (1934), RIIA (1936), Savadjiev (1939), Nenovsky (2006), Nenovsky and Dimitrova (2007).

unilateral granting of the right of a “most favoured nation”<sup>9</sup>. Following the Unification of Eastern Roumelia with the Principality of Bulgaria in 1885 a number of unclear points concerning trade with Turkey emerged, but on the whole, while waiting for Turkey’s agreements to expire or for “the customs chains to fall off in 1890” (Chakalov, 1902, 89), already in 1887 preparations started for a customs tariff law, which was to follow the principles of the Romanian Law of 1886. The Great Powers however were in no hurry to negotiate or sign contracts; they wished to impose even more severe conditions on our trade, which led to the signing of only one-year or temporary trade agreements during the term of the pro-Western People’s Liberal Party led by Stefan Stambolov (1887-1894).

In 1894 the Bulgarian government proposed two-year agreements and a rise of duties from 8% to 15%. However the increase was only to 10.5% following a pressure from Austria-Hungary (the tariff was in effect until the end of 1906). Finally, in 1896 a draft tariff of 14% was prepared and the first agreement of the country with Austria-Hungary was signed on 12 March 1897. This agreement specified a number of lists of goods whose tariffs varied from duty-free to 8%, 10%, 10,5%, and 12%, all of which for fiscal purposes, while the duties within the range of 14%, 16%, 18%, 20% and 25%, as well as some specific tariffs for shoes and clothing were of a moderate protectionist character. These moderate and even low levels were evident from various facts such as the inability, despite the 14% customs duty and the already adopted law on encouraging national industry (of 28 January 1895<sup>10</sup>), to establish match manufacturing in the country, which later on in 1905 was declared a state monopoly.

Overall, as with Romania, the country’s customs duties and trade policy were closely related with external borrowing (one such example was the loan agreement signed with Viennese banks in 1909) where conditions were stipulated also with regard to the character of trade flows and customs duties. To illustrate this, already in the first contracts with Austria-Hungary the import of capitals was accompanied by import of machines, raw materials and semi-manufactured goods from the same country with the customs duties on these items being lower, while those on finished goods were higher. The last significant changes to import duties were made in 1904 when the latter increased significantly and ad valorem duties were replaced by various lists.

After World War I, the story with the abolishment of external trade autonomy recurred. Under the Treaty of Neuilly (art. 151 and articles 147 - 150), being on the losing side Bulgaria had to keep for five years the pre-war customs duties (i.e. those of 1904), or until 9 August 1924. Only on 11 April 1922 was a new external tariff adopted (comprising two parts – autonomous and contractual), which was definitely of protectionist character while still moderate. This coincided with the agrarian rule of Alexander Stamboliiski – the first radical rural government on the Balkans which also observed the basic principles of free trade<sup>11</sup>. During Andrey Lyapchev’s Government, customs duties rose significantly and a special law was adopted on 13 May 1926 followed by further rises in 1928 and 1930. Generally for the period, according to K. Bobchev customs duties were raised twice. The period (1926-1930) was marked by “over” protectionism unlike the preceding one (1921-1926), which could be referred to as a period of strong protectionism. Subsequently, following the monetary stabilisation in 1928 and the start of the crisis in 1929, the sharp decline in agricultural prices and balance of payments problems, Bulgaria, very much like Romania, sharply mobilised the mechanisms of foreign exchange control, compensations, clearings and other foreign exchange techniques<sup>12</sup>. The aim was to preserve the fixed exchange rate and mobilise resources for servicing external debts (political for the most part). The contractual policy of the country became independent only on 9

<sup>9</sup> With Serbia, Turkey and Romania, other terms applied such as 8% duty on domestic prices with a 10% discount.

<sup>10</sup> The major industry incentive laws that followed were adopted in 1904, 1925 and 1928 (about in-depth overview see the extensive studies by Tsankoff (1909), Berahoff (1927), Todoroff (1933), and Yaranoff (1934)).

<sup>11</sup> On agrarian reforms in that period see Bouroff (1925), Bell (1977).

<sup>12</sup> About details see Chakalov (1939) and on other sources see Nenovsky and Dimitrova (2007).

August 1925 and after many hurdles Bulgaria began signing trade agreements with the leading economic powers after 1931, in particular 1933, Germany being the most important among these.

As regards the development of protectionist ideas in the two countries, these followed mostly in parallel with the dynamics of protectionism in the two countries and largely an upward trend. Needless to say, the formation of national self-consciousness and identity has its economic dimensions as evident from the popularity of the leading western protectionist theories such as those of List and Carey, as well as the overall strong influence of the German historical school and the persistent popularity of the old German school, subsequently the new one (Schmoller in the first place) to come to the strong presence of Werner Sombart and Othmar Spann<sup>13</sup>. An example of the protectionist character of the economic thought was the setting up of the Bulgarian Economic Society in 1894/95 with the clear intention to work towards protection of national economy (Bobchev, 1935)<sup>14</sup>. Indicative in this respect was the first fundamental publication dedicated on the country's foreign trade policy in support of industrial protectionism, which was prepared by the then young Georgi Danailov, discussed by BES, where the author actively used Schmoller's, List's and Carey's ideas (Danailov, 1900). It also stirred Boncho Boev's critical counter-studies (1900, 1901), who was sceptical of that type of protectionism and held that Bulgaria should and would be an agrarian country. B. Boev believed that Romania too was to continue as a rural economy and that the Romanian policy towards encouraging industry was extremely harmful and wrong.

Generally, both in Romania and in Bulgaria in that period there was a heated debate about what should be the character of Bulgaria's development, "industry or agriculture", which involved nearly all economists and politicians – a debate that was broadly familiar to western specialists. There was a number of syntheses from Marxist, agricultural and cooperative theoretical trends some of which marked for their originality (notably in Romania – Constantin Dobrogeanu-Gherea, Constantin G. Stere, Tito Maiorescu, Nicolae Iorga, but also see the ideas of some Bulgarians such as Alexander Stamboliiski and Yanko Sakuzov)<sup>15</sup>. Subsequently, during the years of the Great Depression and under the sway of Italian and German practices, the doctrines of directed economy, planned economy, autarchy, corporatism and other holistic theories began to emerge.

In general, as Thomas David (David, 2009) appropriately points out, during the interwar period a new model of national economic development started to be sought, especially actively after the onset of the Great Depression. Exactly at that moment, which was characterised by expansion of protectionist practices and emergence of a number of western theories, in Bulgaria and Romania there were interesting attempts at developing new theoretical constructs as a response to the problems of the two Balkan economies. These two theories were definitely that of the Romanian economist Mihail Manoilescu, which appeared chronologically first (in 1929), and of the Bulgarian economist Konstantin Bobchev (in 1937). Indeed, a few of these ideas could be found in some of their previous publications. That applied in particular to Bobchev who already in 1933/1934 had clear ideas about the new theory which also came as a reaction to Manoilescu's model whom he knew personally and who, on Bulgarian Economic Society invitation (its Secretary was Bobchev), held two lectures in Sofia in 1933, was translated into Bulgarian, etc.

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<sup>13</sup> See detailed study of economic nationalism on the Balkans by Pasvolksy (1928), Savadjiev (1939), Berend (2000), and about economic nationalism in general see Heilperin (1960) and Boulanger (2006). Most Bulgarian and Romanian economists studied in Germany as either university graduates or defended doctoral theses under the tutorship of leading representatives of the German economic thought (Bücher, Schmoller and Sombart were tutors of many of the leading economists from the region).

<sup>14</sup> About the evolution of Bulgarian economic thought see Nenovsky (2011), and about Romania's - Love (1990), Boatca (2005).

<sup>15</sup> Bell (1977), Love (1990, 2009), and Boatca (2005).

### III. Mihail Manoilescu and his general theory of protectionism based on productivity

Mihail Manoilescu's theory of protectionism (1891-1950) and his ideas and personal fate have been well highlighted by both Romanian and western authors (Bobulescu, 2003; Pohoată, 2007; Maneschi, 2008, Love, 1990, 2009). This theory was in general received with criticism from the leading western economists of that time. However later on Manoilescu became very popular in Latin America in constructing a model of development for the third world (see Love, 1990).

Manoilescu took an active part in developing the economic policy in Romania and a definite technocratic peak in his career was the design of the aforementioned industry protective tariff, which subsequently evolved into an all-round theory of industrial protectionism. Later, this protectionist theory fit into the model of organic and corporate economy, which Manoilescu put forward in the period 1934-1940, as pointed out by the author himself (Manoilescu, 1934/1938). In this sense, it could be asserted that from the very beginning of his theoretical and practical career, or at least from late 1920s till the end of his life, Manoilescu's ideas and theories were marked by clear continuity and connection based on the theory of protectionism.

#### *Main elements of Manoilescu's theory*

The main task is to construct a theoretical model of international trade that could defend and substantiate the need for a new model of economic development for the peripheral Balkan countries. Involved in the theoretical debates as well as in his practical activities as Minister (in Averescu's authoritarian government), Manoilescu was convinced that the free trade principles held by the Society of Nations or, as he calls it, "the spirit of Geneva" was absolutely detrimental to Romania, held back its development and served foreign interests. His great ambition was to demolish Ricardo's theory of comparative advantages underpinning the free-trade ideas. This however was to be achieved from within the mainstream by using the basic postulates of the classical economic doctrine "to defeat it on its own grounds" (Manoilescu, 1931, 81), as the author proposed in his book released in 1929 in Paris (and later on translated into English in 1931, Italian, Spanish, Portuguese, and in 1937 – in German), and in a synthetic form in his speech to the General Union of Industrialists in Romania held on 7 March 1929, also published in parallel in French and English in 1931 (Manoilescu, 1931) and translated in Bulgarian on occasion of his visit to Bulgaria in 1933 (Manoilescu, 1933).

With regard to the book's exposition, Manoilescu's approach is similar to Marx's method of abstraction in *Das Kapital*, i.e. "from the concrete to the abstract and back", which is evident from the three main parts of his book – Facts (I), Theory (II), Reality (III). Manoilescu always begins with facts – he is a deductivist and empiric.

First, he saw that Romania and the Balkan countries were poor, the difference between their welfare and that of developed economies was huge, and this could no longer continue and had to be changed. It could be surmised that the exchange between rich and poor countries is unequal, the reason being the doctrine of free international trade and policy. Therefore, a new criterion needs to be applied in assessing each foreign trade policy. Such criterion has to encompass not only exchange (foreign trade), but also production, which now begins to take on a leading role, and treat a nation and national labour as key elements. This criterion, i.e. national welfare, is expressed in a concrete measurable indicator as "capacity of a nation's purchasing power" (*capacité de pouvoir d'achat*), and even more specifically in the net national revenue (*revenu national net*). Its growth is a criterion of progress, while the reverse is a criterion of regress (Manoilescu, 1929, 290).

But how is this indicator to be maximised?

Hence the second assertion of the author, which is also based on empirical observations: the main means of achieving this could only be an increase in the overall level of labour productivity of the Balkan economies (which was 3, 4 or even 5 times lower than that of developed economies), defined as “the value of average net production realised by one producer, i.e. by one agent of production in the course of the year” (Manoilescu, 1931, 6).

How could this growth of overall national productivity be realised?

And here, third, again starting with facts, the author believes that an increase in overall national productivity should be based on a change of its structure, i.e. by expanding the sectors of high productivity at the expense of the low productivity ones.

Now, which are these sectors?

Obviously, as could be judged from the facts, high productivity sector is that of industry, while low productivity sector is agriculture. The difference, or the so-called sectoral scissors between these two productivities, is much larger with the Balkan and the other poor countries (3-4 times). “The more backward in general cultural terms a country is, the higher its industrial productivity will be in comparison with that of agriculture, i.e. the greater the contrast between industry and agriculture” (Manoilescu, 1931, 11). Consequently, in order to raise overall productivity, the share of the sectors of above average productivity needs to be increased and national labour needs to climb the ladder up to higher productivity (Manoilescu, 1931, 18).

And finally five, how could such climbing up is to be attained?

The answer is extremely clear – via customs protection for high-productivity sectors, i.e. industry. The duty on imported industrial goods (or a subsidy for national industry) should make up for the differential in overall productivity *versus* foreign productivity. In parallel, the scissors of domestic productivity should be narrowed, with sectors of below average productivity converging towards those of above average productivity. Thus, the sectoral scissors of poor countries would narrow and so come closer to those abroad. Over time, however, new sectoral scissors will open already within the industrial sector, which makes protectionism almost an eternal mechanism.

On the whole, protectionism brings with itself quick (from the very first day) and visible benefits and in general it (the protected industry) does not require sacrifice (“it is non-sacrificial”), which is something new compared to List’s model<sup>16</sup> where protections produce results while on the move, and, as a general rule, only under certain conditions (Manoilescu, 1929, 85; 1931, 14, 22).

Thus, Manoilescu constructed his model of “internal comparative advantages” based on the productivity of each sector, especially its positioning with regard to a country’s average productivity. This type of theoretical assertions is in contradiction with the theory of comparative advantages, because the positioning, the hierarchy of sectors is different and in actual fact reverse, i.e. according to the two theories the specialisation should be totally diametrically opposed. Therefore, Manoilescu paid special attention to the critique of the theory of comparative advantages.

First, he believed that Ricardo’s theory does not take account of the quality of labour (its heterogeneity) and its national character, i.e. Ricardo’s model does not distinguish the deep differences between external and internal exchange. Unlike individual profit, which is generally

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<sup>16</sup> Often referred to as “shy protectionism”.

static, preset, national profit is dynamic and there could be a situation of both positive national profit and individual losses at one and the same time. "A capitalist's profit is something of the surface; national profit is what is deep" (Manoilescu, 1929, 36).

Second, whereas with national exchange labour and the value produced by it remain within the country and are redistributed among its citizens, in an international trade environment the countries with lower labour productivity suffer national labour loss which is in effect an unequal exchange (later on Manoilescu was considered a forerunner of the theory of unequal exchange, see Love, 2011). This is so because a monetary exchange between two countries does not reflect the real proportion of the amount of exchanged labour between the two countries whose structure substantially differs in terms of productivity. A value leaves the country when a commodity is exported, for the production of which a lower productivity labour is employed, to import a commodity produced by using a higher productivity labour. It is labour productivity and not money which is the "actual national medium of exchange" in foreign trade (Manoilescu, 1929, 226), or as stated in another publication "the true measure is man himself":

"Yes, but how do we pay for imported coal? Do we pay with our money or with our products? If we paid with money from a never-ending fund, then Adam Smith's reasoning would have been valid; we however pay for it with our labour. And how is labour productivity measured? It is measured with the exchange value produced by each individual. If we bring everything down to man, this is because he is both a measure of production and a measure of consumption. A country's average productivity is the very coefficient of the country's welfare. This productivity per employee in the course of one year characterises the entire economic and social life of a given country. Where this productivity is high, the country is happy: it produces a lot and consumes a lot. (Manoilescu, 1931, 18-19). "The true unit of measure of a country's efforts and performance is *man* who is both a producer and consumer." (Manoilescu, 1929, 160)

All this leads to unequal exchange in terms of labour, because for import of coal in Romania and export of grain from the country the labour of 10 and 20 workers is required for machines and grain, respectively:

"[...] the labour of 20 workers is needed in the course of one year in order to produce this grain and acquire in exchange the expensive coal, which we could produce in the country with the labour of only 10 workers for one year. (Manoilescu, 1931, 20).

Manoilescu formulated in his own way a law, the observance of which had to underlie a new model of development of the Balkan countries:

"It is better to produce expensively expensive things than produce cheaply cheap things (Manoilescu, 1929, 198).

### ***Interpreting Manoilescu's theory***

We should say right away that Manoilescu's theory gained quick popularity among the leading western economists (the proponents of the classical and neo-classical schools) and was in general received with criticism as evident from the reviews by Viner (1932), Condliffe (1933), Ohlin (1931), Otto v. Mering (1933), and Oulès (1934) while the positive reviews were somewhat an exception, as for instance Pasvolsky (1932), and later on Kalecki (1938) and Hagen (1958)<sup>17</sup>. He was received with

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<sup>17</sup> According to Love, 2011, Werner Sombart also had positive attitude to this theory and to Manoilescu's ideas in general. Manoilescu himself, in his speech in Sofia, mentioned Sombart as one of the few economists whose theory was similar to his own, namely regarding the unequal exchange among industrial and agrarian economies, which received income gratis ("*so-zu-sagen gratis*") (JBES, 1933, 682).

criticism in the Balkan countries as well, such as by the authority in agrarian and industrial economy and foreign trade Gheorghe Tasca (1937) and the two leading Bulgarian economists in the area of foreign trade Georgi Svrakov (1936 [1934/1935]) and Konstantin Bobchev (1933a, 1935a). Recently, Roxana Bobulescu and Joseph Love presented an in-depth and exhaustive analysis of Manoilescu's theory indicating its main shortcomings, debatable points and original ideas (Bobulescu, 2003; Love, 2009). In the same vein were most of the critiques by other Romanian authors (Pohoată, 2007; Maneschi, 2008). They are mainly concerned with misconception of productivity, not taking account of productivity of capital, the presence in each country of the so-called "non-competing groups" and others, mainly from the perspective of the classical and partly neoclassical doctrines of international trade.

Could anything new be said about Manoilescu's theory, could it be treated in a different way?

Here we would like to offer a possible interpretation of Manoilescu's theory, which in a sense brings in new ideas and could help us understand the internal contradiction of the model of the Romanian economist. It will also serve as a transition to Bobchev's theory, which conceptually and methodologically is diametrically opposed to Manoilescu's.

To put it straight, this has to do with a number of similarities (either conscious or intuitive) with the labour theory of value and exploitation advanced by Karl Marx and which, as is known, bring up logical problems both within an individual country and in an international exchange setting. What is it all about?

First, it is quite evident that working out the conceptual framework and substantiation of unequal exchange and exploitation among countries – tasks, which Manoilescu had set to resolve in his book – required delving at a much deeper level of cognition than the level of prices. This is concerned with theoretical reasoning at the analytical level of "value" (transfer of value, surplus value, the labour theory of value, labour productivity), as well as comparing, measuring and aggregating various types of labour, etc. That is exactly the analytical level at which Manoilescu's theory is positioned. As is known, Ricardo resolved the problem of measuring one against other types of labour by proposing firmly fixed ratio of wages across the various types of labour. Taussig (1921, 1927) made a series of steps towards a more realistic accounting for different labour classification, but on the whole remained within the Ricardian conception of the labour theory of value.

Second, similarly to Taussig, Manoilescu questioned the rationality and sustainability of Ricardo's theory from the perspective of quantifying labour, but he followed a different line of analysis and proposed different type of solutions to scaling different types of labour again within the labour theory of value. Although Manoilescu did not mention it explicitly, he looked for solution in the same direction which Marx offered with all its advantages and, most of all, with all its flaws. This similarity is also evident from Manoilescu's ambitions, who, according to Joseph Love, compares his achievement to that of Marx (Love, 2009) and from what we have seen so far, in his speech in Sofia Manoilescu declared that he had found "a socialism of peoples, which is more essential and more revolutionary than the socialism of classes" (JBES, 1933).

Certain elements of similarities with Marxism also stem from the fact that in his pioneering book "L'échange inégal" where Marx's law of value in national exchange is opposed to that in international exchange, Arghiri Emmanuel explicitly argues that Manoilescu's book is the only

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Mentioning Sombart in his speech is indicative of Manoilescu's Marxist approach, because most of Sombart's theories step on or are variations of the basic postulates of Marxism. Not accidentally, in his famous critique of Marx's labour theory of value, Eugen von Böhm-Bawerk dedicated a whole essay with the eloquent title "Apology of Werner Sombart" (Böhm-Bawerk, 2002 [1896]).

exhaustive effort to create a theory of protectionism (Emmanuel, 1969, 37). According to Emmanuel himself:

“[...] there is a category of countries, which whatever they undertake, whatever they export, they will always exchange more national labour against less foreign labour. This is the fundamental question among those that we will try to find answers to” ((Emmanuel, 1969, 50).

As is known, the representatives of the theory of unequal exchange (either Marxists or not), have always considered Manoilescu their forerunner (see Love, 2009).

Third, we know that Karl Marx resolved the issue of measuring one against other kinds of labour (and thereby value) through his concept of the twofold character of labour (volume one of *Das Kapital*). According to this theory, all kinds of labour – individual, concrete labour – are equated to social, abstract labour, labour as expenditure of human energy. This way, labour products are equated to commodities of exchange value<sup>18</sup>. Despite the variation of price vis-à-vis value in each particular case the movement (as a result of demand and supply discussed in volume three) of the products of labour becoming commodities are exchanged according to the amount of abstract labour or socially required labour costs input to produce them<sup>19</sup>. This way, the roots of exchange value and of value are to be found in the area of production. According to Marx, when labour productivity increases, an equal consumption value with an equal exchange value is produced, at the core of which are labour costs (“socially necessary labour costs”). Or, according to Marx himself in volume one of *Das Kapital*:

“By “productivity” of course, we always mean the productivity of concrete useful labour; in reality this determines only the degree of effectiveness of productive activity directed towards a given purpose within a given period of time. Useful labour becomes, therefore, a more or less abundant source of products in direct proportion as its productivity rises or falls. As against this, however, variations in productivity have no impact (whatsoever) on the labour itself represented in value. As productivity is an attribute of labour in its concrete useful form, it naturally ceases to have any bearing on that labour as soon as we abstract from the concrete useful form. The same labour, therefore, performed for the same length of time, always yields the same amount of value, independently of any variations in productivity. But it provides different quantities of use-values during equal periods of time; more, if productivity rises; fewer if it falls. For this reason, the same change in productivity which increases the fruitfulness of labour, and therefore the amount of use-values produced by it, also brings about a reduction of value of this increased total amount, if its cuts down the total amount of labour-time necessary to produce the use-values.” (Marx, 1976 [1867], 137)<sup>20</sup>.

Labour productivity, which Marx examines in-detail in the chapters on relative surplus value, is a way to increase the surplus value or the exploitation of labour-power in a given amount of labour

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<sup>18</sup> Thus, the twofold character of labour is transferred into a twofold character of the commodity (exchange value and consumer value), then inside the exchange value (relative and equivalent), then between money and commodity (money is equated with the equivalent form) and so on, and so forth following the dialectical method.

<sup>19</sup> Marx was aware of the differences stemming from labour qualifications and resolved the issue by saying that the complex (qualified) labour is simple labour raised to a certain power, i.e. multiplied by a given coefficient. These two reductions (concrete to abstract and complex to simple) are disputable and these underlie the numerous critiques levied at Marx’s theory starting from the Austrian school and Böhm-Bawerk’s famous critique. If we ignored the whole range of issues touched by Böhm-Bawerk, even the very assumption of the process of reduction, which is social by nature, comprises in itself a process of circularity because such reduction could not be anything else but that which takes place via the mechanisms of market, through exchange, where prices and money are involved. In other words, instead of the logical appearance of money and prices following labour and value analysis (which is Marx’s basic logic), these (prices and money) are wedged in the very formation of value, in determining the social “crystalised” labour, in measuring the concrete types of labour.

<sup>20</sup> The same texts supplied with explanations were included by Marx in his *Critique of Political Economy* (Marx, 2009 [1859]). As is known, the dynamics of labour productivity is a leading category in Marxist economic theory and in the concept of historical materialism (this could be seen in every Marxist treatise of economics, see for instance Mandel, 1986 [1962]). Everything else being equal (given), an increase in labour productivity leads to economies (economy) of value because the same use-value is generated by lower values (labour costs).

and labour time, because its increase leads to the production of the same amount of use-value at less individual labour costs lower than the socially required ones. In this case, the difference in surplus value is expropriated by the capitalist and this exacerbates exploitation. However, within a national economy a free movement of labour and capital exists, which dynamically leads to constant overcoming and emergence of individual advantages driven by changes in individual labour productivities. It could be assumed that within a given national economy the new value thus produced as a result of labour productivity would stay within that country and under certain conditions redistribution among the different groups via the mechanisms of state could also take place.

Forth, quite another is the situation with international exchange, where Marx's law of value operates in a different way. Marx failed to work out the range of problems of international trade (although he intended to in a fifth volume of *Das Kapital*), but nonetheless Marx's followers took further his theory of value in international exchange (Arghiri Emmanuel, Samir Amin, Charles Bettelheim, Christian Palloix, etc.) and in general (with certain differences of course) came to the conclusion that the law of value displays reverse causality. Here, due to the lack of a free movement of labour, as well as the absence of a world government, it is exchange and not production which determines the formation of value. Thus, the leading role here in price formation is played by use-value rather than by exchange value. That, in the first place, makes it difficult to determine the internationally necessary labour costs, and then second, even where such measurement does exist (when national labours are reduced to international abstract labour), the surplus value remains within the country of higher productivity and there are no mechanisms to redistribute it.

This way, value is transferred from the countries of lower to those with higher productivity, the first being exploited and playing the role of the labourers in Marx's model, while the latter are exploiters and occupy the positions of capitalists. It is clear that from a country's or a nation's standpoint, ways could be sought to eliminate such unequivalence of exchange, and as a rule (and once again under specific conditions) both capitalists and workers in a given country could share a common national interest. It consists in stopping the outflow of value and raising the overall level of productivity; thus they would produce the same amount of international use-values by means of lower value, or, amounts to the same thing – more exchange use-values by the same value. This is Manoilescu's model who believes that in an international exchange setting behind the equivalence of exchanged use-values there is an unequal exchange of value, and ultimately of national labour.

### ***Mathematical presentation of Manoilescu's theory***

In mathematical terms, Manoilescu's model could be presented in the following way. In order to have equivalence, equality should exist between the levels (aggregated) of national productivities (because as Manoilescu says productivity is "*la vraie monnaie nationale*", Manoilescu, 1929, 226). The equations (1-6) below present the major dependencies of the model constructed by the Romanian economist.

$$(1) q = \gamma_i q_i + (1 - \gamma_i) q_a$$

$$(2) q^* = \gamma_i^* q_i^* + (1 - \gamma_i^*) q_a^*$$

.....

$$(3) q = q_a + (1 - \gamma_i)(q_i - q_a)$$

$$(4) q^* = q_a^* + (1 - \gamma_i^*)(q_i^* - q_a^*)$$

.....

$$(5) (q_i - q_a) = \alpha(q_i^* - q_a^*)$$

$$(6) \gamma_i = \frac{1}{\beta} \gamma_i^*$$

Equations 1 and 2 describe aggregated productivities of a poor (Balkan) country  $q$  and a rich industrial country  $q^*$  (hereinafter rich industrial countries are denoted with  $*$ ) as weighted values of productivity in industry and agriculture, with indices  $i$  and  $a$ ,  $\alpha$  and  $\gamma_i$ , respectively is the weight of industry in total productivity. Equations (1) and (2) have been transformed into (3) and (4). The next two equations are important as they indicate the relationship between the scissors gap between sectoral productivities in the two countries (5) and the proportion of the share of industrial sector (6), respectively. In equation (5), as has been already noted, according to Manoilescu's calculations  $\alpha > 0$  (and is between 2 and 3) and indicates the lagging behind of agricultural economy vis-à-vis industry in the poor Balkan countries. Equation (6) on the other hand demonstrates the lagging behind of the industrial sector in the share of productivity (which is similar in the production of national income), or  $\beta > 0$ <sup>21</sup>.

$$(8) q^* > q$$

$$(9) (q_a^* - q_a) + \left(\frac{\beta}{\alpha} - 1\right) \gamma_i (q_i - q_a) > 0$$

$$(10) \frac{\beta}{\alpha} - 1 > 0$$

$$(11) \beta > \alpha$$

In order to have equivalent exchange between the two countries, an equality should exist between the levels of national productivities ( $q^* = q$ ), which also means equality of exchanged national values ( $v^* = v$ ). In reality however, according to the Romanian economist what we observe empirically is the inequation (8) ( $q^* > q$ ), which would imply that poor countries give more value than the value they receive ( $v^* < v$ ), because value and productivity are inversely related (let's suppose proportionally), or ( $q^* = -v^*$ ) и ( $q = -v$ ). Inequation (8) is equal to (9) and it becomes clear that in order for it to balance, inequation (10) needs to be valid (because the rest of the members in (9) have a positive sign), or  $\beta > \alpha$ . In other words, the lagging behind of industry in agricultural countries should outpace that of price scissors.

<sup>21</sup> Here,  $\alpha$  and  $\beta$  are taken within the framework of a two-sector model – agriculture and industry; however they could also be constructed within the framework of industry, between its individual branches, i.e. a multi-sector model, as explicitly noted by Manoilescu. In this way, constructing the total aggregated productivity becomes much more difficult.

It is evident that in order to reverse the sign of dependence between productivities (or values) and move towards equivalence ( $q^* = q$ ) and ( $v^* = v$ ), we need to have ( $\beta/\alpha - 1 < 0$ ), which ultimately means  $\alpha > \beta$ . In other words, the lagging behind of the share of industry in poor countries ( $\alpha$ ) should be less than the lagging behind of the productivities scissors, total productivity ( $\beta$ ). That is, the country needs to find ways to increase the share of industry in its national production. This, Manoilescu believed, had to be achieved through protective tariffs, protectionism, or through subsidies and preferential loans, i.e. industry incentivizing measures; this would stop the outflow of value and would put an end to the exploitation processes, and a new level of equality and equity among nations would be attained.

As has already been mentioned, very quickly the leading specialists in the area of international trade spotted the shortcomings of this theory. One of them was the actively involved in the international trade practice Bulgarian economist Konstantin Bobchev.

#### **IV. Konstantin Bobchev's theory of protectionism and the variability of the means of production**

Although less popular than Mihail Manoilescu, Konstantin Bobchev (1894-1976) worked out just as ambitious and in-depth theory of international trade and protectionism as his Romanian counterpart. Taken as a whole, these two theories constitute the main achievements and contributions of Bulgaria and Romania in the theory of international trade. Bobchev's theory was translated into English (by Assen Hristophorov) and prepared for print, but was never published. This, however, does not mean that the theory was not well known and evaluated by specialists from both Bulgaria and overseas, some of whom considering it as a significant effort on a world scale (see for instance the survey article *New methods and ideas in political economy* by Slavcho Zagorov in 1937, who placed the theory among the best world economic achievements and new ideas, such as those of Keynes, Leontiev, Joan Robinson, etc.)<sup>22</sup>

Despite some differences, Bobchev's involvement in designing the tariff and trade policy of Bulgaria and in theoretical discussions held much in common with Manoilescu's. In short, the Bulgarian economist studied in Saint Petersburg (1913-1915), Sofia (1915-1919 (with interruption during the mobilisation), 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, \*\*Piatier), who gave him an almost complete picture of the state of ideas and theories as well as the practice in the area of

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<sup>22</sup> Zagorov could be trusted and we can definitely rely on his competence as he was a very proficient economist, director of the National Statistics Institute, and perhaps the only Bulgarian who published in the *Journal of Political Economy*. In a similar vein were the reviews by the other leading authorities in this field: Assen Chakalov (1938) and Zhelio Burilkov (1938) who too pointed out the originality of the theory. On Zagorov's recommendation, Bobchev wrote a letter to Oskar Morgenstern for the purpose of arranging a translation of Bobchev's book and requesting a meeting with Morgenstern in Vienna (the letter is dated 19 September 1937 and is to be found in the personal correspondence archive of Oskar Morgenstern alongside Zagorov's positive recommendation to Morgenstern dated 26 September 1937). Based on evidence in Bobchev's archive, he gave up publishing the book following a conversation with Robins who convinced (!) him that a work such as his would not be received well by liberal economists (archive stock 279/1/40). According to Bobchev himself, part of his ideas were synthesized in German in his essay in *Weltwirtschaftliches Archiv*, Bobchev (1938). His main tenets could be found in German in his speech on the scope of industrialisation in Bulgaria, delivered to the German Society in Sofia on 26 April 1938 (Bobtcheff, 1938a) as well as in his report in French, Bobtcheff (1939).

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.

### ***Bobchev as critic to Manoilescu's theory***

Konstantin Bobchev deliberated his theory for a long time, since early 1930s, and it could be considered a reaction to Manoilescu's theory, which Bobchev found interesting and challenging while also having a few fundamental problems of purely scientific nature.

The major ideas in the book 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 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. 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 trade<sup>23</sup>. On the whole, I find it quite obvious that Bobchev was much more theoretically competent and more knowledgeable in the area of economic theory than Manoilescu who, despite his vast economic culture, was nonetheless an engineer by education.

Similarly to 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. Although he did not share the ideas of exploitation and unequal exchange, Bobchev was convinced that economic relations among nations should be placed on new grounds; they often did not reflect an equitable and harmonious distribution of trade benefits and losses, and that they should make it possible for poor countries to develop and increase their income.

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 we have already mentioned here (lack of theory of prices; use of prices in the statistical calculation of net value added; the net value added components are disputable; capital is not included in measuring productivity; profitability is mistakenly considered as productivity; consumer benefits and losses are ignored; the hierarchy of productions is difficult to determine; existence of uncompetitive groups within the country is not considered, etc.).

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

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<sup>23</sup> 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).

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 labour<sup>24</sup>. These critical observations are best and most clearly formulated in the book in the parts on protectionism (Bobchev, 1937, 34-38; 143-144). In Bobchev's words:

“Let's assume, together with the author, that according to Ricardo the equation  $80vp=100da$  [note N.N.: this indicates the exchange equation in number of workers, where  $vp$  is wine in Portugal,  $da$  fabric in England; further in the text  $va$  stands for wine in England,  $dp$  for fabric in Portugal] expresses not one of many possible, but the only possible exchange relationship. Under this condition as well the argumentation is faulty. Because it is absolutely inadmissible to relate (“*rapporter*”), the way Manoilescu does, this equation to the other two equations:  $80vp = 120va$  and  $90dp = 100da$ . These equations are quite heterogeneous and of different nature. The first one is an “exchange equation”. [...] In the first equation  $80vp = 100da$  no productivities are compared. Because, in the first place, it is not possible to compare labour productivity (as well as the other factors of production) in the various types of productions. And nowhere does Ricardo attempt to do so. [...] Productivity, in its true sense of “real” or “natural” productivity and not in the meaning of “profitability, i.e. earnings”, which Manoilescu arbitrarily implies to the term productivity. [...] A note should be made here that Manoilescu made a mistake the very moment he used in the exchange equation  $80vp = 100da$  the symbols  $vp$  and  $da$ , which, as he himself defined it, stood for productivity. This mistake could be taken as a warning to those inclined to apply mathematical means of expression in economics the way they are used in mathematics. Mathematics may not deal with “heterogeneous” equations; this however does not mean that the same applies to economics.” (Bobchev, 1937, 37-38)

So, from what has been said so far, it becomes clear that Bobchev's critique was fully consistent with the numerous other critiques, including those of the Austrian school, against the theory of labour value, Karl Marx's theory including. Hence, the ambitious task undertaken by the Bulgarian economist to construct a new systemic theory of international trade, within the framework of which protectionism could find its place as a special case, a theory to integrate the latest achievements of the economic science.

### ***Main elements of Bobchev's protectionist theory***

First, we should note right away that 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,

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<sup>24</sup> 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).

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 realities<sup>25</sup>. 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.<sup>26</sup>). 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)<sup>27</sup>, "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 competition<sup>28</sup>), 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).

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<sup>25</sup> 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. 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).

<sup>26</sup> See Pareto (2009 [1905]) and Bientinesi (2012).

<sup>27</sup> Taussig did away with the assumption of an equally qualified labour and equally remunerated labour (Manoilescu did the same; however he offered a different solution) by assuming instead equal proportion of pays per type of labour across countries, or equal capital support of labour across sectors. Haberler, in turn, while totally rejecting the labour theory, offered analysis directly at the level comparative costs expressed in monetary terms and introduced a number of new concepts such as "substantial" relationship among production factors, etc.

<sup>28</sup> 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).

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 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). Whether these processes and the examples the author provides could, from present day perspective, be seen as positive or attractive, is quite another issue; but on the whole there is definite logic in his reasoning, which astonishingly reminds of some of Hernando de Soto's ideas in his popular book "The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else". (De Soto, 2000)<sup>29</sup>.

This however is not all.

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 formation<sup>30</sup>.

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 development<sup>31</sup>. 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).

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<sup>29</sup> In a sense, Bobchev's ideas, just as those of de Soto, could be criticized with Karl Polanyi's arguments (if his point of view was to be accepted that market exchange is not a more progressive form than natural exchange, cities are not more progressive than villages, etc.), who believed that most of the processes pointed out by the Bulgarian author do not constitute a progress, but just the other way round – a regress.

<sup>30</sup> 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.).

<sup>31</sup> 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 market of means of production (Chart in quadrant I) is in relation to the above four processes represented in quadrants IV and III.

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:

“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)

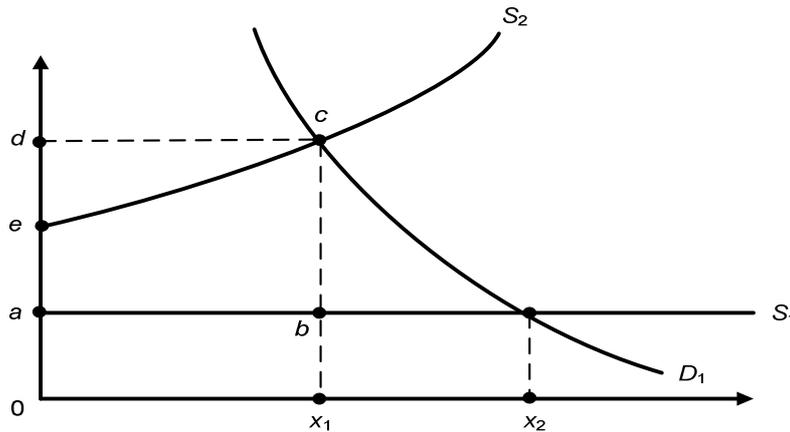
In order to resolve this task, Bobchev started with examination of the pure theory of international trade, where the markets of two countries interact via their trade flows and the changes in monetary factors (exchange rate and gold reserve movements). Bobchev’s analysis is graphical and he uses the method of representation introduced by Cunyngame (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 groups<sup>32</sup>.

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. Thus, in general, protectionism in Bobchev’s theory, unlike Manoilescu’s, is not a general, but a private and concretely historical case. Bobchev illustrates this graphically as follows:

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<sup>32</sup> 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).

Chart 1: Profits and losses from international trade and protectionism



(N.N.: original symbols have been changed), (Bobchev, 1937, 122-125).

The Chart illustrates a country which initially only imports a commodity, in which case we have only supply  $s_1$  and demand  $d_1$  at a price  $oa$  and imported volume  $ox_2$ . If an import duty ( $ae$ ) is introduced, a local supply is generated and the curve becomes supply  $s_2$  (demand is the same  $d_1$ ), and the volumes generated are  $ox_1$  at higher prices  $od$ . Mobilizing our knowledge of neoclassical macroeconomics we can see consumer losses  $abcd$ , which are higher than local producers' profit  $ecd$  (the part  $oecx_1$  is what producers remunerate, reward (in kind and in cash) the owners of the means of production in a situation of sacrificial positive development of the means of production). Things however are totally reversed in the case of non-sacrificial development – then the segment  $oecx_1$ , i.e. the remuneration received by the owners of the means of production, is considered their profit and added to national income. Obviously, in this configuration overall national profit (net income) is positive and protectionism is justified<sup>33</sup>. 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)

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

<sup>33</sup> What strikes here is the absence of the state (government) as an actor, entity, or as a social group, which in a certain aspect (and from the standpoint of modern Keynesian-formed macroeconomics) is a flaw because it is quite possible to assume that customs revenue could also be regarded as part of the net income (component) and be used for redistribution or at least compensation for the losses incurred by consumers and/or owners of the means of production.

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)<sup>34</sup>. 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<sup>35</sup> 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 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)

### ***Others theoretical and empirical issues in Bobchev’s theory***

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

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<sup>34</sup> 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.

<sup>35</sup> These are mainly List, Schüller and again Manoilescu, of whom the first does not see the possibilities of protectionism to quantitatively generate means of production; the only possibility he can see is for their productivity to increase. Nor does List see the groups that win and those that lose. Schüller, in turn, sees the overall development of productive forces; yet he does not differentiate between sacrificial and non-sacrificial. Manoilescu does not see any groups as an aspect of national income; he speaks only of movement and not of creation of the means of production, and in general steps on a scientifically wrong conceptual framework of productivity (and on the whole is a step back compared to Schüller’s theory written in 1905, (Schüller, R., 1905). Both Chakalov (1938) and Burilkov (1938) believe that Bobchev’s actual contribution is his original doctrine on the means of production. Burilkov, however, believes that Bobchev’s theory is very similar to List’s and with quotations from List he tries to prove similarity with Bobchev’s theory. In fact, already during his second stay in London in 1937, after his book was published in Bulgaria, Bobchev tried to convince Burilkov of the specifics of his theory of the means of production as could be judged from their correspondence (Bobchev, 279/5/30-31). In his view, with List, protectionism is justified only if national production exceeds foreign production, while according to Bobchev it is never superfluous, or “Even if this cheap national production (situation) should never occur, provided the positive development of the means of production yields more than is the cost of protection for consumers, it would be economically justified”, Bobchev (279/5/30-31). Curiously, during that time, Assen Chakalov (the second major reviewer) was at the Bank of England and often met and talked with Bobchev.

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.

Although Bobchev nowhere refers to life in Bulgarian (unlike Manoilescu who works with data mostly about Romania, but also about Bulgaria, and whose approach, unlike Bobchev's, is an empirical one), we could presume that Bobchev's practical involvement in the affairs of Bulgaria's industry and foreign trade made him stand in favour of industry protection (in 1932 he published a treatise entitled *Industrial Policy*). We however should not underestimate Bobchev's objective to study in detail the mechanisms of equilibrium and the responses to crisis in both industry and agriculture, on which he dedicated a full lecture course called *Agricultural Policy*, (Bobchev, 1942)

Bobchev's main ideas about protectionism and industrialisation were also summarised in his speech before the German Society of World Economy held in German on 26 April 1938 in the Bulgarian Academy of Sciences hall (Bobchev, 1938). This short speech, which was subsequently published in the BES Journal, was dedicated to the history, problems and prospects faced by Bulgaria's industrialization. During the last stage of development of the Bulgarian industry, after 1931, according to Bobchev's data industry employed between 70 to 100 thousand workers, or 3% of the total active population with the share of industry as a percentage of national income reaching not more than 6-7%. The structure of industry was dominated by consumer goods industry while the manufacturing goods and machines industry was almost nonexistent. Bobchev however was not discouraged with the results from the analysis of supply and demand factors in relation to Bulgarian industrial goods. He established that the limits of Bulgarian industrialisation were far from reached ("we have 1 million unemployed workers in the country side, we have raw materials, etc.") and the main problem to resolve was demand and markets. He therefore proposed stimulating domestic consumption, especially going out on the international markets.

All this had to fit into a single idea – that of moderate protectionism which, as Bobchev believed, would not at all slow down international trade, but quite the opposite – would actually boost it.

"I would like to openly say that I do not believe in the free trade thesis according to which the highest welfare could only be achieved through free trade. The free trade thesis could only be true if based on static and unrealistic premises of quantitative and qualitative invariability of the means of production employed in a national economy. In actual fact, however, dynamic conditions exist by virtue of which the amount of the means of production employed in a national economy may increase or decrease, and their quality may improve or deteriorate. [...] In cases where a decrease in national income on account of each protection resulting from increase in consumer goods is less than the increase in the same income, which are due to a rise in the quantity or improvement of the quality of the employed means of production, caused by the same protection, then such protection is clearly justified from national economy perspective. Although there are no concrete research studies, it could be definitely asserted that under the existing possibility in agricultural countries such as Bulgaria to create, by way of industrialisation, jobs for part of the hidden unemployed resulting from over-employed agriculture and to qualify labour, industrial protectionism would, in most instances, be economically justified. While this is so, the care and efforts of the state shall not cease to incentivise such industrialisation. This protectionist thesis is not at all incompatible with the idea of world economy and international division of labour and the pursuit of still further development of international economic relations. On the contrary, from the circumstance that protectionism is conducive, under certain conditions, to the increase of national income of nations, it follows that

conditions are also created for a further upsurge of trading activities between them, albeit of a different nature than in the case of free trade exchange.” (Bobchev, 1938, 280-281).

Curiously, in his comprehensive study of price scissors, an issue also analysed and studied by Manoilescu (see Love, 201136), Bobchev explicitly mentions that industrial protectionism would allow a reduction in the scissors gap, namely a fall in the prices of industrial goods and increase in the prices of agricultural goods (Bobchev, 1934). The price scissors are important because in essence they reflect the trade conditions of the Balkan countries, as they export agricultural goods and import industrial goods, and clearly the price scissors deteriorate the conditions of trade. Bobchev makes calculations of his own by assigning new price indices as a result of which over the period 1929 – 1933:

“The depreciation of agricultural goods was not 59%, but 63%; the decrease in agricultural goods was not 28%, but 17%, and consequently the decrease in the purchasing power of agricultural goods was not only 43%, but 55%. These figures undoubtedly place Bulgaria among the countries where the gap between the prices of agricultural goods and those of industrial goods is the strongest. [...] Whereas the prices of foods of plant origin have fallen from 1926 to 1933 by around  $\frac{2}{3}$ , those of animal origin have fallen by around  $\frac{1}{3}$ .” (Bobchev, 1934, 13).

According to Bobchev, one of the reasons for the relative increase in prices of industrial goods is the abolishment of the free imports and setting the customs duties for raw materials and machines in 1931 too high (almost threefold), as well as the abolishment of the advantages of the national industry. This should be rectified because although at first sight this creates the impression of dislocation of a national income between social categories. It leads in fact to an overall loss (the losses incurred by the rural population cannot be made up for by the gains of the industrial population. Instead it leads to a new spiral of losses with regard to industries, etc.). Here again he criticises Manoilescu for not recognising consumer losses, mostly agricultural workers (Bobchev, 1934, 35-38).

As regards economic policy and measures aimed at “correcting facts”, i.e. for a relative decrease in industrial prices and a relative increase in agricultural prices, unlike Manoilescu (1933) who believed that higher duties were useful and critiqued Cassel, Bobchev believed that among the external trade policy measures “the most efficient not only among these, but in general among the measures of influencing the prices of industrial goods, is the reduction in import duties on imported goods (as well as on imported raw materials and machines for the local industry)” (Bobchev, 1934, 39), or a radical revision of the customs duties’ regime that would set it free from its fiscal nature. As far as the rise in agricultural prices is concerned, in addition to the actions within the Agrarian bloc, i.e. fighting for preferential duties for the countries on the Danube (as already mentioned, actively involved here was Manoilescu’s intellectual adversary Madgearu), within the frame of external trade policy Bobchev proposed developing export premia, as well as hidden premia within “private compensations”.

## **V. Concluding remarks - Comparing the two theories and their value for today economic discussion**

In late 1920s, 1929 in particular, the crisis reached the Balkan countries.

The first thing the crisis led to was a fall in the prices of agricultural goods which essentially comprised the major part of Bulgaria’s export to Romania. The fall in prices reached 50-60 and even

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<sup>36</sup> Manoilescu (1933).

higher percentage vis-à-vis the pre-crisis years, which is an unparalleled deterioration of the terms of trade, taking into account the much weaker decrease in the prices of industrial goods (comprising these countries' import). Thus opening the price scissors between prices of industrial goods and prices of agricultural goods was directly reflected into deteriorated conditions of trade (prices of agricultural goods/prices of industrial goods). The consequences followed: accumulation and failure to service debts incurred by agricultural farmers constituting the major portion of the population of the two countries, sharp decline in national income and mass unemployment, which was central to all problems. As a result of agrarian difficulties the came the banking crisis, the problems with servicing the external obligations and keeping the fixed exchange rate to the gold.

The crisis made the economic and political elite of Bulgaria and Romania look for solutions to protect their economies and construct new appropriate models of development not only for countervailing the crisis but also for meeting the new long-term prospects of economic development. As a result, the two original theories of economic protectionism emerged: these are the theory of the Romanian economist Mihail Manoilescu and that of the Bulgarian economist Konstantin Bobchev.

Mihail Manoilescu constructed an extremely original and later on popular and discussed model constituting a solution to both the current problems of the decline in agricultural export prices in 1929 (when the first edition of his book came out) and the long-term goals of development and catching-up of affluent countries. The way out, as Manoilescu saw it, was clear: industrialisation thorough protectionism that would move labour and capital to high-productivity industrial sectors thereby pushing up the overall productivity of the national economy. This would also resolve the unequal exchange and exploitation of the Romanian nation with the rich industrial countries and would lay the grounds for a new international equitable economic order. It should not be forgotten that unlike Bulgaria, Romania's industry developed much quicker and on the whole occupied a larger share due the oil and gas industry.

Konstantin Bobchev carefully thought out his book and equipped with a number of new theories and economic facts, in particular the severe unemployment and non-use of factors of production, put forward in 1937 a new type of theoretical model substantiating the need of protectionism. Thus, Bobchev's theory came also as a response to and reconsideration of the Great Depression, which had already manifested its devastating effects on the labour market, i.e. the increase in unemployment, while during Manoilescu's time the major problem was still the price fall of agricultural products and deteriorating trade conditions in the Balkan countries (Bobchev's book came out in 1937, and Manoilescu's – in 1929). Bobchev's theory clearly outlines the role of protectionism in overcoming unemployment which is central to the problems of development of the means of production. In this sense, he could be interpreted also as Keynes' follower whose ideas he knew well<sup>37</sup> and whose works allowed for a protectionist reading as was recently made by French economist Frederic Poulon (Poulon, 2011 [2000]). Not by chance did Bobchev mention repeatedly Keynes' name in his survey *Customs protectionism in England* (1935) where he underlines that Keynes' changing sides to the protectionist camp in early 1931 marks an important point in the British attitude to protectionism (Bobchev, 1935, 207). Bobchev's main focus extends to not only stimulating national labour industry, but in the first place the qualitative and quantitative development of all means of production, naturally including of labour (productivity is a manifestation of its qualitative development).

Manoilescu's theory is much more revolutionary and polemical indicating the author's ambitions already with the very title *General theory of protectionism*, i.e. a theoretical system aiming

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<sup>37</sup> It could be surmised however that *The General Theory* which came out in 1936, was not taken into account by Bobchev when writing his book. *The General Theory* is not cited by Bobchev and the quoted literature ceased in 1934/1935 (with two exceptions, Svrakov's article (1936) and Firmin's book (1936)).

to replace the international trade theory. Bobchev's ambitions go in a different direction: building a new approach to international trade within which protectionism is economically a fully justified special case, yet just a special case.

Manoilescu's approach combines the logical and empirical within the confines of the labour theory of value; while preserving its philosophical tenets, he disproves Ricardo's comparative advantages intuitively searching for a solution in a direction similar to Karl Marx. Without explicitly mentioning Marx's theory, still a number of theoretical points exist which remind of the approach of the twofold character of labour and the processes of reducing the various types of concrete labour to a common denominator, namely average abstract socially necessary useful labour (average necessary "fixed" labour time, etc.). The possibilities of measuring and comparing labour and other theoretical postulates of Marxism have been refuted many a time and with sound arguments. Therefore, the scientific character of Manoilescu's method is extremely questionable.

In terms of method, Bobchev too follows a different direction: he prefers to deduce his theory logically within the frame of the demand and supply theory of price formation and without taking account of such deep issue as a value), taking however into account the historical process integrated in the theory through carefully analysing the initial theoretical premises or postulates (within the framework of the old theory (which postulates to be kept, which ones to be rejected and the new ones to be added). Although Bobchev had a very good grasp of the empirical methods and statistics (as evident from other of his publications), he believed that empirical points should not appear in presenting a pure and applied economic theory.

Although the two theories are strongly sociologically charged, Bobchev's theory nevertheless gives more possibilities for analysis of the behaviour of the social groups of economic actors with regard to their participation in the production and distribution of national income. And whereas Manoilescu is more interested in the overall growth of national income, and despite his Marxist polemics (mainly centred on relations among nations), Bobchev keeps his focus on the distribution of income. Thus with Bobchev the distribution of income is genetically related and only in this light could we understand protectionism. Bobchev too sees asymmetry and uncooperativeness in international exchange as regards the distribution of trade losses and gains, but he does not reach the conclusion about the exploitation and transfer of income. We could say without any doubt that in this regard both authors are predecessors of modern International Political Economy, but while Manoilescu could be associated with the Marxist school, Bobchev is more akin to its realistic wing.

Undoubtedly, Manoilescu and Bobchev's theories have utility not only as a moment from the history of economic thought, but also as a source of knowledge and ideas about the economic theory which is presently put to the test of explaining and offering an exit from the crisis. Bulgaria and Romania are facing problems similar to those typical of the Depression in the interwar period, and although in a different context (membership in the European Union, etc.), they have to resolve the problems not only of the crisis, but also those of catching up and convergence. The situation of the two countries has a European dimension as well.

We do not claim that Manoilescu's and Bobchev's theories are true or that they give answers to today's challenges; what we are saying is that they can help us get orientated in the problems of today and look for theoretical and practical solutions.

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